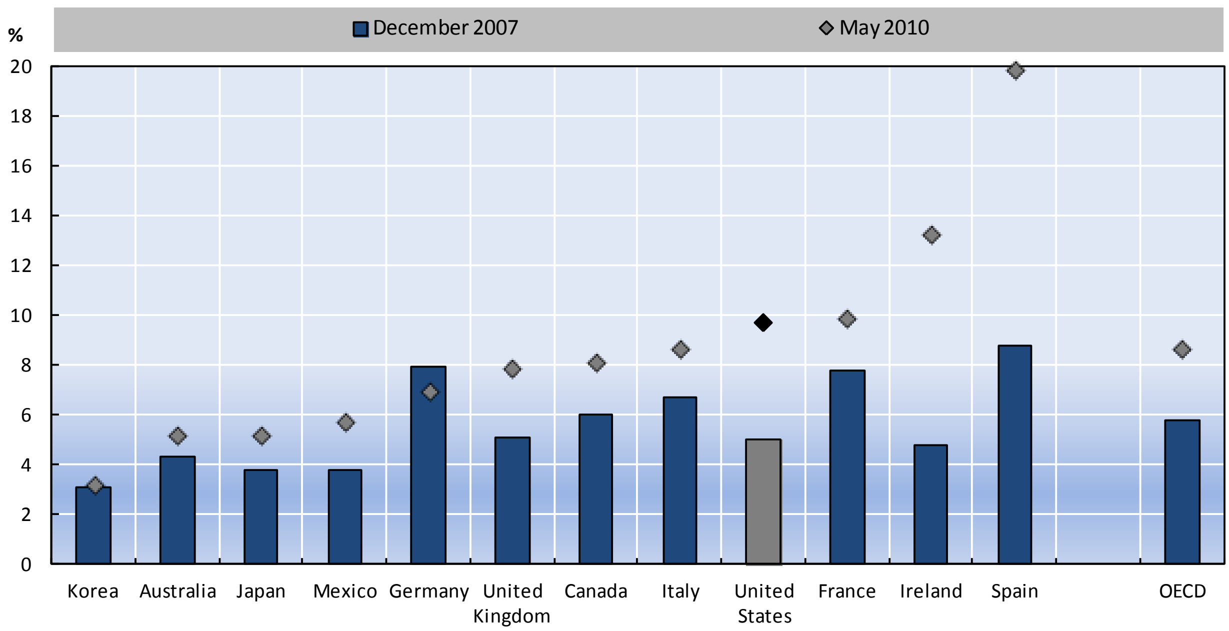
Employment Outlook 2010 – How does the UNITED STATES compare?

Unemployment has risen more sharply in the United States following the recent global financial crisis than in most other OECD countries. The US unemployment rate doubled from around 5% at the end of 2007 to just over 10% in late 2009 and then gradually eased to 9.5% in June 2010. The average unemployment rate for all 31 OECD countries increased by a smaller, but still sizeable, 50% (see Figure 1).

A particularly worrisome feature of the US recession is that the number of long-term unemployed has reached an unprecedented level. Nearly one-half of the unemployed have now been jobless for more than six months and more than one in four has been unemployed for an entire year or longer. Long-term unemployment has been a large scale problem in some European countries for several decades, but had been much rarer in the United States. The OECD argues that this group raises particular concerns for public policy. One concern is that the long-term jobless are at an elevated risk of falling into poverty. In this context, it is troubling that the temporary extension of unemployment benefits to last as long as 99 weeks has been allowed to expire. Persons experiencing long-duration unemployment also risk becoming permanently marginalised in the labour market. It is important to assure that the public employment service provides this group with effective job search assistance or training to improve their prospects in the labour market.

Figure 1. Unemployment rates in December 2007 and May 2010 in selected countries

Percentage of the labour force



Note: Final month available for the United Kingdom is March 2010.

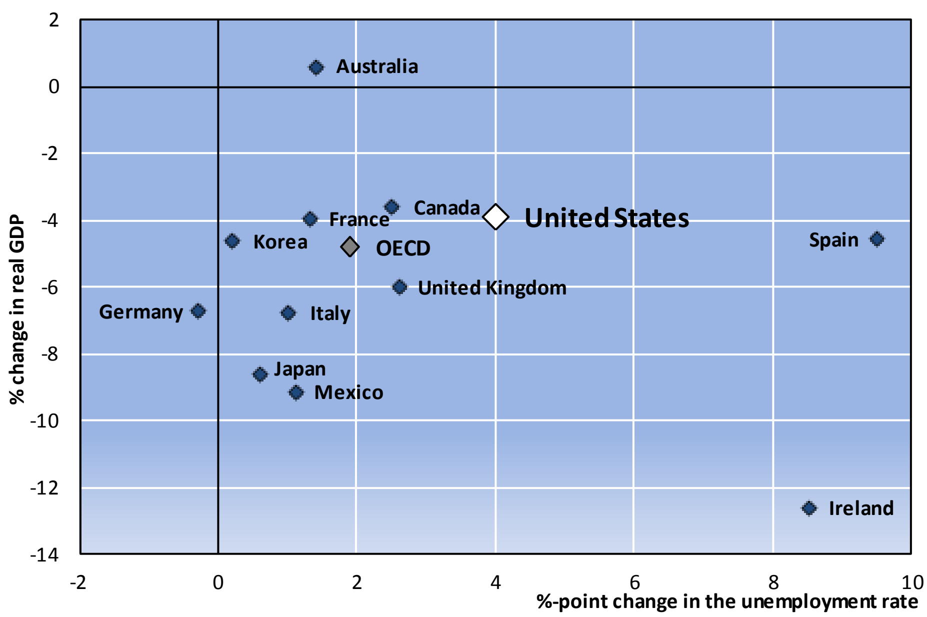
Source : OECD Main Economic Indicators.

Even though economic growth resumed in the second half of 2009 in the United States and many other advanced economies, the *OECD Employment Outlook 2010* indicates that **the economic recovery will be too muted to result in strong job creation and that unemployment is likely to recede only slowly**. As a result, the US unemployment rate is expected to remain above 8% at the end of 2011. In this context, governments should place a high priority on trying to encourage employers to step up hiring. Unfortunately, most governments have little room to apply additional monetary or fiscal stimulus, the conventional tools for boosting aggregate demand and hiring when labour market conditions are difficult. Policy makers face a daunting twin challenge to reduce high unemployment while tackling unprecedented fiscal deficits. In this context, it is important that employment measures achieve a lot of bang for the buck.

Short-time compensation programs can reduce job losses during an economic contraction. New OECD analysis shows that a public short-time compensation programme can preserve jobs that would otherwise be lost in a recession by encouraging employers to adjust to lower product demand by reducing workers' hours ("work sharing"), rather than through layoffs. Twenty-four OECD countries operated this type of scheme during the recession and they significantly reduced job losses in countries, such as Germany and Japan, where employers' take-up was high. The unemployment insurance system in 17 US states – representing just over half the national workforce – operate short-time compensation programs, but take-up is very low. This is one of the reasons why job losses in the United States have been much larger than in other countries experiencing comparable or larger reductions in output (see Figure 2). For example, GDP actually fell more sharply in Germany and Japan than in the US, but unemployment rose much less in Japan and not at all in Germany.

Figure 2. How sharply unemployment rose was only partly determined by how much GDP fell

Change from peak to trough[a,b]



a. Australia did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q3 to 2009 Q2.

b. Peaks and troughs are determined using real GDP series in levels.

Source : OECD Main Economic Indicators Database.

Well-targeted hiring subsidies can be a cost-effective way to boost job creation in the recovery. Even after business conditions begin to improve, employers tend to be cautious about hiring given continuing uncertainties about the strength of demand. In order to encourage a more rapid recovery of employment, the majority of OECD countries have subsidies that lower the costs to employers of hiring additional workers. These subsidies often take the form of a temporary reduction in the Social Security tax rate paid by employers, as is also the case for the HIRE act enacted by the US Congress last March. These subsidies can be effective at encouraging additional hiring but tend to be costly and it is important to avoid paying the subsidy for jobs that employers would create in any case. The OECD argues that these subsidies should be targeted on the workers in greatest need of employment. The HIRE programme rates quite well by this criterion, but could be even more cost-effective if firms receiving the subsidy were required to demonstrate that their new recruitments result in a net increase in total employment at the firm, as is the case in Belgium, Ireland and several other countries.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on the United States, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Paul Swaim (tel: +33 1 45 24 19 77 e-mail: paul.swaim@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.