

Chapter 2

The Labour Mobilisation Challenge: Combating Inactivity Traps and Barriers to Moving Up Job Ladders

This chapter analyses the scope for policies to raise aggregate employment rates by fostering greater labour market participation among population groups that tend to be under-represented in employment. Under-represented groups are diverse and their relative numerical importance differs from country to country. Nonetheless, women, older workers and less educated workers represent the largest reservoirs of underutilised labour potential in most OECD countries. To what extent are certain population groups, such as women, older workers and less educated workers, trapped in situations of labour market inactivity? Once in employment, do they have career prospects or is there a risk that they will become trapped in low-quality jobs? How would a better mobilisation of these groups help respond to the challenges of population ageing?

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Introduction

The previous chapter documented encouraging signs of structural improvements in aggregate labour market performance in a number of OECD countries. However, it still remains the case that important groups in the working-age population continue to experience low employment rates or are disadvantaged in terms of the quality of the jobs that they hold. This chapter analyses population groups which represent important reservoirs of underutilised labour potential: women, older workers and less educated workers, bearing in mind that there are overlaps between all such groups. Youths, lone parents, immigrants and persons with disabilities also receive some attention. In all cases, the intent is to identify the population groups with the greatest unrealised potential in the labour market and to describe their situations.

This chapter's focus is motivated by the increased prominence – among the objectives of employment and social policy – given to raising the *aggregate* employment rate (see, e.g. European Commission, 2003a). This policy orientation combines the conventional concern to lower unemployment with a more novel concern to increase participation. The latter objective is receiving increased emphasis in the context of population ageing and also because of widespread interest in the possibility that benefit dependency could be reduced among persons of working age. The main purpose of this chapter is to provide a factual baseline for assessing the labour mobilisation challenge facing OECD economies. Estimates of the quantity of underutilised labour potential are presented and the labour market situation of the population groups representing the largest pockets of inactivity or under-employment described. This analysis is intended to clarify which groups should receive particular attention from policies aimed at raising participation and employment. A second aim of the chapter is to provide an initial indication of the types of barriers to fuller integration into employment (or into more productive forms of employment) that need to be addressed for a mobilisation strategy to succeed. Chapters 3 to 5 analyse a number of such barriers in greater detail, as well as policies for overcoming them.

The chapter is organised as follows: Section 1 assesses the scope for policies to raise the overall employment rate. After summarising possible rationales for adopting increased employment rates as a policy objective, several estimates of potential labour supply and employment are presented. Detailed comparisons of the labour force status of different population groups are presented in Section 2, so as to provide a fuller picture of which groups have low participation rates or are at a high risk of unemployment, and how these patterns vary across OECD countries. The labour market experience of these groups is analysed using longitudinal data in Section 3, in order to characterise more fully the difficulties they often encounter in entering employment, staying in employment and moving up job ladders. The evidence for inactivity and low-pay traps is considered, as well as the relationship between labour market status and poverty among persons of working age.

Main findings

- Three rationales can be offered for policies to foster higher participation rates in OECD countries. First, participation rates may be inefficiently low due to disincentives to employment created by policies, such as high marginal effective tax rates. Second, low participation rates can create fiscal stress to the extent that non-participation involves the receipt of social benefits. Finally, higher participation can further social inclusion and equity goals. These rationales take on added urgency in the context of population ageing, which will place great pressure on living standards and the fiscal sustainability of important social programmes if participation rates do not rise, particularly among older persons.
- If supply- and demand-side barriers to employment are not addressed, population ageing will imply a sharp deceleration of labour force growth during the next three decades – including absolute declines in nearly one-half of the OECD countries. The ratio of persons aged 65 years and older to the labour force would also rise from 27% in 2000 to 47% in 2030, while the share of workers aged 50 years and older in the labour force would rise from 23% to 31%.
- Estimates of potential labour supply based on, alternatively, self-response data (i.e. inactive persons saying they want to work) and international benchmarks indicate that policies to expand participation could plausibly increase employment by between 7% and 12% of the working-age population (OECD average values). Juxtaposing the self-response and benchmark estimates indicates that many persons “distant” from the labour market would need to be mobilised to bring low-participation countries up towards the levels of high-participation countries, but also that a significant share of inactive persons are potentially interested in employment in all countries, even those in which employment rates are already high. These potential labour supply estimates also highlight the heterogeneity of the population groups under-represented in the labour market.
- Women, older and less skilled workers represent the largest pools of underutilised labour potential in most OECD countries. The social returns to increased employment among lone parents and persons with partial handicaps also appear to be high, despite these groups having less numerical weight as regards to raising aggregate employment rates. Barriers to employment for youths and immigrants also raise special social concerns, but the application of the labour mobilisation orientation to these groups is complex. Youth non-participation frequently takes the form of full-time schooling which adds to the human capital stock, thereby supporting future growth, and ensuring a smooth transition from schooling to working appears to be the key issue. As for the latter group, the employment gap for (male) immigrants is relatively small in most OECD countries (and negative in a few countries) and diminishing inactivity traps appears to be of less concern than ensuring adequate earnings and career prospects.
- There is considerable overlap across the different population groups that are under-represented in employment. This overlap is a reminder that some individuals face multiple barriers to participating in the labour market and that an integrated package of policy interventions may be necessary to allow them to participate fully in the labour market. For example, employment rates are particularly low for women and older persons with low educational attainment. Similarly, the strong geographic concentration of non-employment in many OECD countries means that barriers to employment due to

individual factors are often combined with the disadvantages resulting from a depressed local labour market.

- Persons of working age who were non-employed in the mid-1990s spent an average of 4 ¼ of the next five years outside employment in Europe compared with 3½ years in the United States. Relatively high persistence in non-employment, especially in Europe, suggests that many of these non-employed persons may be difficult to “activate”. Unless, of course, there should be a major change in their time-use preferences towards participating in employment, or substantial improvements in their employment opportunities and economic returns to working. However, the short duration of many “escapes” from non-employment suggests that employment instability is also an important factor depressing participation rates, especially in the United States.
- Persistence in non-employment is particularly strong for women, less educated adults, and, especially, older persons describing themselves as retired. These patterns hold in all of the countries considered, but gender and age differences in persistence are particularly strong in the United States. Unemployed persons move into employment at much higher rates than persons who are outside of the labour force, confirming that the statistical distinction between these two categories of non-employed persons is of practical importance for labour market programmes. Increased emphasis on policies to foster higher participation is an important complement to the conventional focus on helping unemployed persons into jobs, but it is no substitute for it.
- There is considerable evidence for the existence of so-called “low-pay traps”, particularly when persons cycling between low-paid jobs and non-employment are considered. In both Europe and the United States, persons who were low paid in an initial year spent nearly four of the next five years in either low-paid employment or non-employment on average. This fraction is even higher for women, less educated workers (especially in the United States) and older workers (especially in Europe). However, persistence in low pay for some co-exists with upward earnings mobility for others, especially youths and persons with advanced educational qualifications. Policies broadening the access of low-paid workers to job ladders appear to be an important complement to measures that help place non-employed persons into jobs.
- Most often, joblessness and low-paid employment do not result in poverty-level household incomes, due to the presence of other earners in the family or alternative sources of income (including social benefits). However, the risk of chronic poverty is substantially higher for persons who are either prone to be jobless or in low-paid jobs, particularly in the United States. Whereas fewer than 3% of working-age persons continuously employed during a five year period are long-term poor in Europe, the risk of long-term poverty rises to 13% for persons who are never employed (5 and 32%, respectively, in the United States). Similarly, the risk of long-term poverty is 13% in Europe for workers who are continuously low paid over five years (41% in the United States). The association between both non-employment and low-paid employment, and an elevated risk of poverty, is particularly strong for low-educated persons and immigrants.

1. Raising employment by mobilising potential labour supply

A. Why increase aggregate labour supply and employment?

While the policy rationale for lowering unemployment is evident, that for raising participation rates and employment is much less so, since there is no presumption that all

persons of working age should work.¹ Nonetheless, three arguments can be made for concluding that policies to foster higher participation rates could be welfare-enhancing: i) participation rates may be inefficiently low due to disincentives to employment created by certain policies; ii) higher participation rates could reduce the fiscal stress associated with high rates of benefit recipiency among working-age persons; and iii) higher participation might further social inclusion and equity goals. Each of these rationales is briefly summarised below. Sub-section B shows that these rationales take on added force in the context of population ageing.

Demand- and supply-side barriers may hinder employment of under-represented groups

A first rationale stresses economic efficiency considerations. It calls for the removal of existing disincentives to employment and labour force participation. Minimum wages and regulations setting minimum quality thresholds for jobs have the potential to limit employment opportunities and the disincentives to hiring created by these regulations frequently have a disproportionate effect on certain work-force groups.² The tax/transfer system may also create disincentives to labour supply that can be especially large for certain population groups. For example, the labour market participation of married women may be discouraged by the high marginal tax rates that second earners face in joint taxation systems (OECD, 2002d). Similarly, the marginal effective tax rate on earned income may be extremely high for persons receiving public transfers, with the combined impact of benefit claw-backs and taxes creating so-called “inactivity traps” (OECD, 2000b). A final example is that many public pension systems and early retirement schemes create strong financial disincentives to continued employment beyond the age of entitlement to begin receiving benefits (Gruber and Wise, 2002; OECD, 2002e; and Chapter 3 of this publication).

Higher employment of under-represented groups would reduce fiscal stress

Income transfer programmes which discourage socially productive employment also imply public spending that may create fiscal stress. Chapter 4 shows that a considerable share of the working-age population receives income-replacement benefits in the 16 OECD countries for which the necessary data could be assembled, with this share ranging up to 38% in the Slovak Republic and exceeding 20% in six EU countries in 1999. In all of the countries considered, a strong majority of benefit recipients of working age (more than three-quarters on average) were receiving social benefits other than unemployment benefits and were unlikely to be labour market participants. Although many of these persons either cannot work or should not be expected to do so, that is not the case for other benefit recipients (particularly in the countries with the highest recipiency rates). If greater participation can be fostered among the latter group, the tax-financing required to meet society’s social insurance and equity goals could be lessened.

Promoting employment of under-represented groups would also serve social objectives

A third rationale for considering policies to foster higher participation is that they could advance social integration and equity goals in some cases. The shift towards an employment-oriented social policy reflects the judgement that many working-age recipients of social benefits could work, with the proper encouragement and assistance, and that both they and society would benefit from their greater integration into the labour

market (see Chapter 4). One of the factors motivating the increased priority placed on “activating” benefit recipients is a growing appreciation of the long-term disadvantages (social, as well as fiscal) of allowing significant numbers of working-age persons to fall into benefit traps. As shown in Chapter 3, many recipients of lone parent benefits would like to have greater employment opportunities. Also, in the presence of firms’ financial difficulties, older workers are sometimes forced into early retirement. These individuals constitute a form of hidden unemployment and there may be a high social cost to providing them assistance in a form that discourages reintegration into employment.

Taken together, these three rationales suggest that policies to encourage greater participation merit serious consideration, even if it is not easy to justify a specific target rate for participation or employment. Indeed, the case for fostering greater participation takes on added urgency in the context of population ageing.

B. The demographic challenge: adapting to population ageing

As is well-known, declining fertility and increasing longevity imply a dramatic ageing of the population in OECD countries in the coming decades, posing a major challenge to economic and social policy. As is shown in Chart 2.1, Panel A, national population projections³ imply that the old-age dependency ratio will rise by 14 percentage points during the next three decades for the OECD as a whole (from 20% to 34%). Some countries will be affected sooner or more strongly than others, but all OECD countries will need to adapt to a significantly older population.

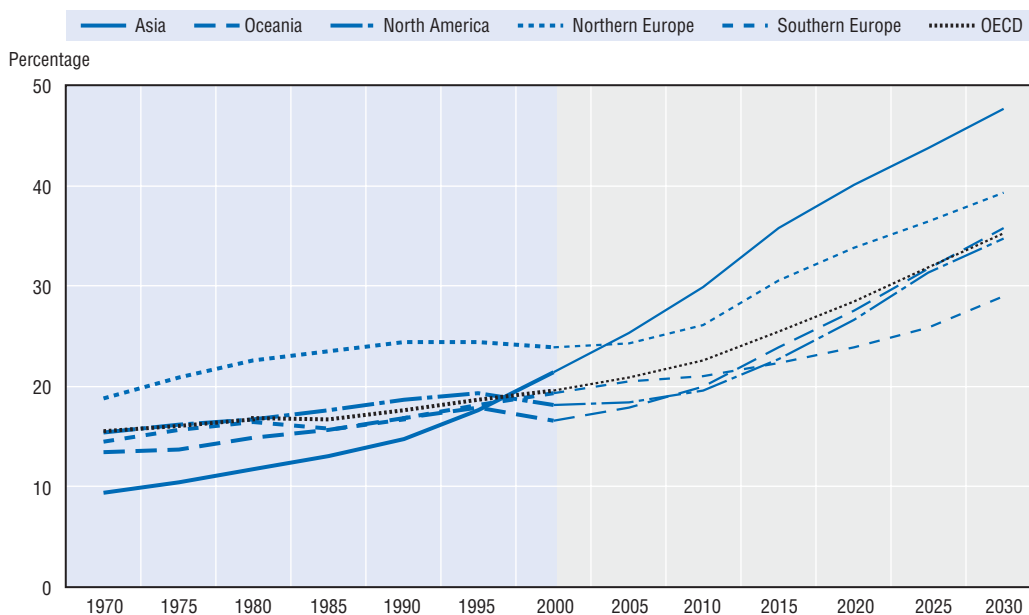
The implications of population ageing for labour markets depend on participation patterns by age and how they evolve. As can be seen in Chart 2.1, Panel B, age-participation profiles were affected by three major shifts during 1970-2000: i) a shift towards longer schooling and later labour force entry that affected both women and men; ii) a trend towards earlier retirement that was especially pronounced for men aged over 50; and iii) an upward trend in participation rates for each succeeding cohort of women. The first two trends magnified the tendency of population ageing to lower the number of working persons in the total population, while a continuing trend towards earlier retirement ages would result in an accelerating fall in the number of producers relative to consumers with adverse consequences for living standards (OECD, 1998b). However, the secular increase in the share of women in the labour force has tended to offset the potential drag of the first two trends on per-capita income and may continue to play this role in the future, particularly in OECD countries where the gender gap in participation is still very large (e.g. Southern Europe, Mexico and OECD Asia).

Unless action is taken, population ageing will entail a major slowdown in labour force growth...

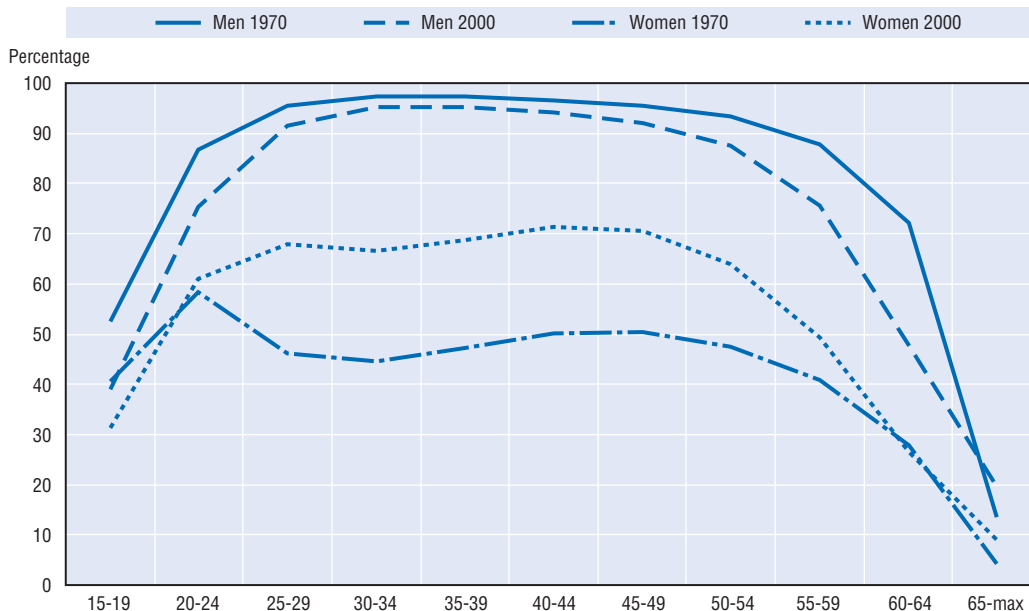
A simple, demographic-driven scenario is useful for assessing the potential impact of population ageing on the labour force during the coming decades. This scenario is purely demographic in the sense that it combines population projections with the assumption that age and gender-specific participation rates remain unchanged at their 2000 values through to 2030, except that participation rates are adjusted for cohort effects.⁴ These calculations show that the demographic developments associated with population ageing have strong implications for the growth of the labour force and its age composition in all OECD regions.

Chart 2.1. The ageing challenge

A. The ratio of older to working-age persons will rise dramatically...
Old-age dependency ratios^d in selected OECD areas,^b 1970 to 2030^c



B. ...while the trend has been toward earlier retirement for men
Age-participation profiles^d 1970 and 2000



- a) Old-age dependency ratio is the population aged 65 years or older divided by the working-age population (aged 15 to 64 years).
 b) Population-weighted averages for the following regional groupings: Asia (Japan and Korea); Oceania (Australia and New Zealand); North America (Canada and the United States); Northern Europe (Denmark, Finland, Norway and Sweden); Southern Europe (Greece, Italy, Portugal, Spain and Turkey); OECD (all 30 member countries).
 c) Values for 2001-2030 are projections.
 d) Population-weighted average for OECD countries.

Source: Secretariat calculations using national population estimates and projections (medium variant) and OECD database on Labour Force Statistics.

The demographic-driven scenario implies a sharp deceleration in the rate of growth of the labour force to 2030 (Chart 2.2, Panel A). If participation patterns remain unchanged, the annual growth rate of the OECD labour force will slow from 1.3% during the past 30 years to below 0.3% over the next 30 years. The labour force will actually decline compared with its 2000 level in 14 OECD countries, with the decrease being at least 0.5% annually in Austria, the Czech Republic, Hungary, Italy, Japan and Poland. Only Mexico and Turkey will continue to experience rapid (albeit, slowing) growth in the number of persons in the labour force (country data not shown).

... and a sharp increase in dependency rates

The demographic-driven scenario implies that the ratio of persons aged 65 years and older to the total labour force will rise more rapidly during 2000-2030 than it did during 1970-2000 in all countries (Chart 2.2, Panel B). For the OECD area as a whole, this “modified old-age dependency ratio” rose by 0.2 percentage points per annum during the past three decades, but is projected to rise at 0.7 percentage points per annum, from 27% in 2000 to 47% in 2030. It is this increase that threatens the solvency of pay-as-you-go pension schemes, as well as living standards more generally, particularly in countries where this rise is especially steep (e.g. Austria, Finland, Germany, Italy, Japan and Korea). In this context, the economic and social returns to fostering greater participation – particularly, later retirement – could be very high.⁵

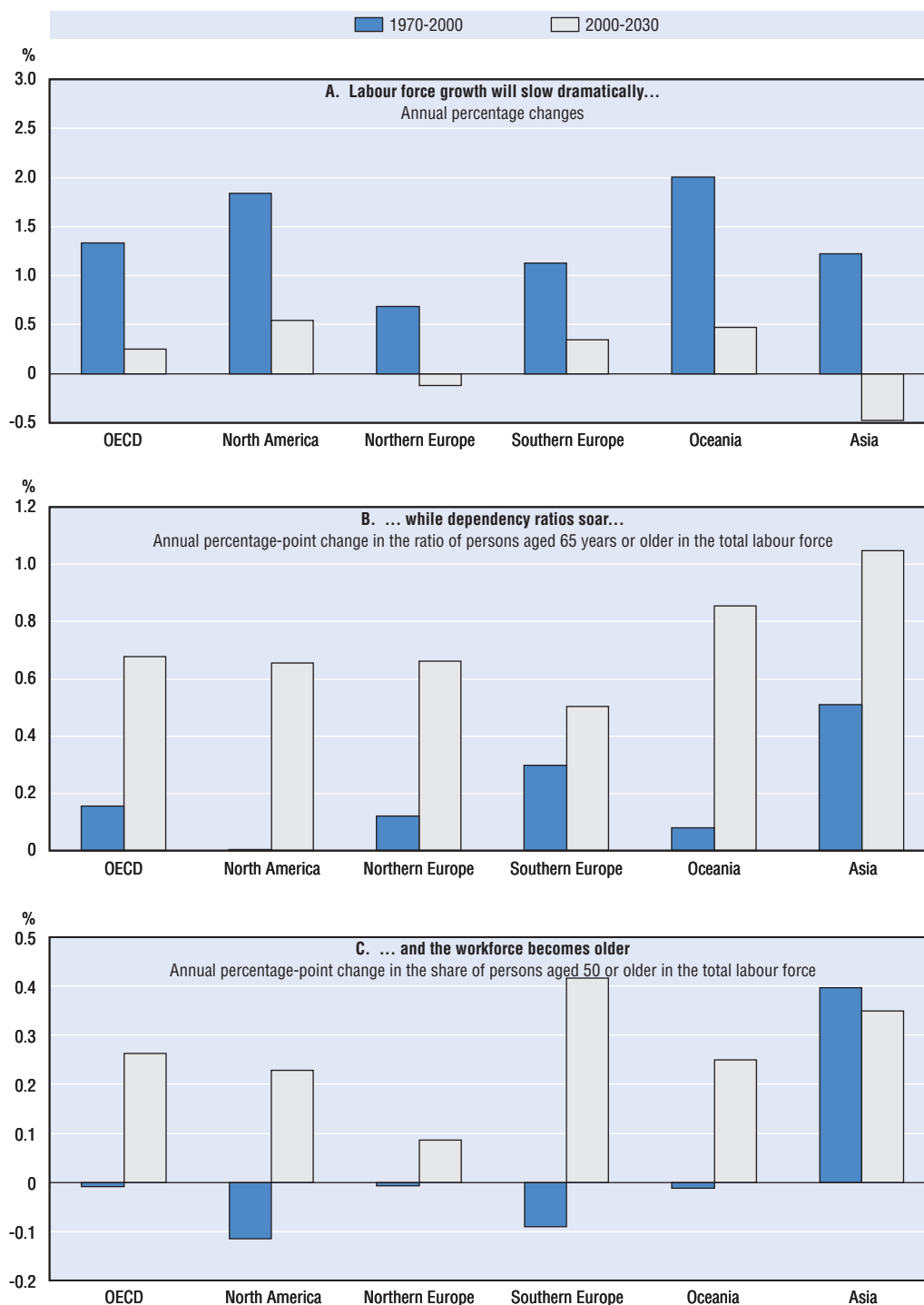
A “greying” workforce

Another implication of population ageing for the labour market is that the workforce will become older. Under the demographic-driven scenario, the share of workers aged 50 and older in the total labour force rises between 2000 and 2030 in every OECD country and work-force “greying” accelerates markedly in most countries (Chart 2.2, Panel C). In the OECD area as a whole, the older-worker share of the labour force was constant during 1970-2000, but is projected to rise by 2.6 percentage points per annum, from 23% in 2000 to 31% in 2030. The rising share of older persons in the workforce may require important adjustments in employment and training practices, and employer personnel policies.⁶ Simple calculations indicate that significant parts of the deceleration of labour force growth and the rise in the modified old-age dependency ratio, which are implied the demographic-driven scenario, could be offset if the trend toward earlier retirement during 1970 to 2000 were reversed. However, the “greying” of the workforce would be reinforced.

C. Estimating potential labour supply

How large of an increase in the overall employment rate would be feasible and which groups, among non-employed persons of working age, might best be mobilised? These questions defy precise answers because it is difficult to identify which groups represent potential labour supply that could be unlocked by appropriate policies. This sub-section uses two different methodologies to estimate potential labour supply. Both methodologies have important limitations. Nonetheless, they help to clarify the potential magnitudes involved, the population groups that are numerically most important to efforts to increase overall employment and the international variation in the size and demographic profile of mobilisable labour.

Chart 2.2. **Population ageing and the labour force: recent experience and a demographic-driven scenario^a in selected OECD areas**



- a) The demographic-driven scenario assumes that age and gender-specific participation rates remain unchanged at their 2000 values during 2000-2030, except that participation rates are adjusted for cross-cohort differences in participation rates (see text).
- b) See Chart 2.1 note b) for definitions of the regional groupings displayed.

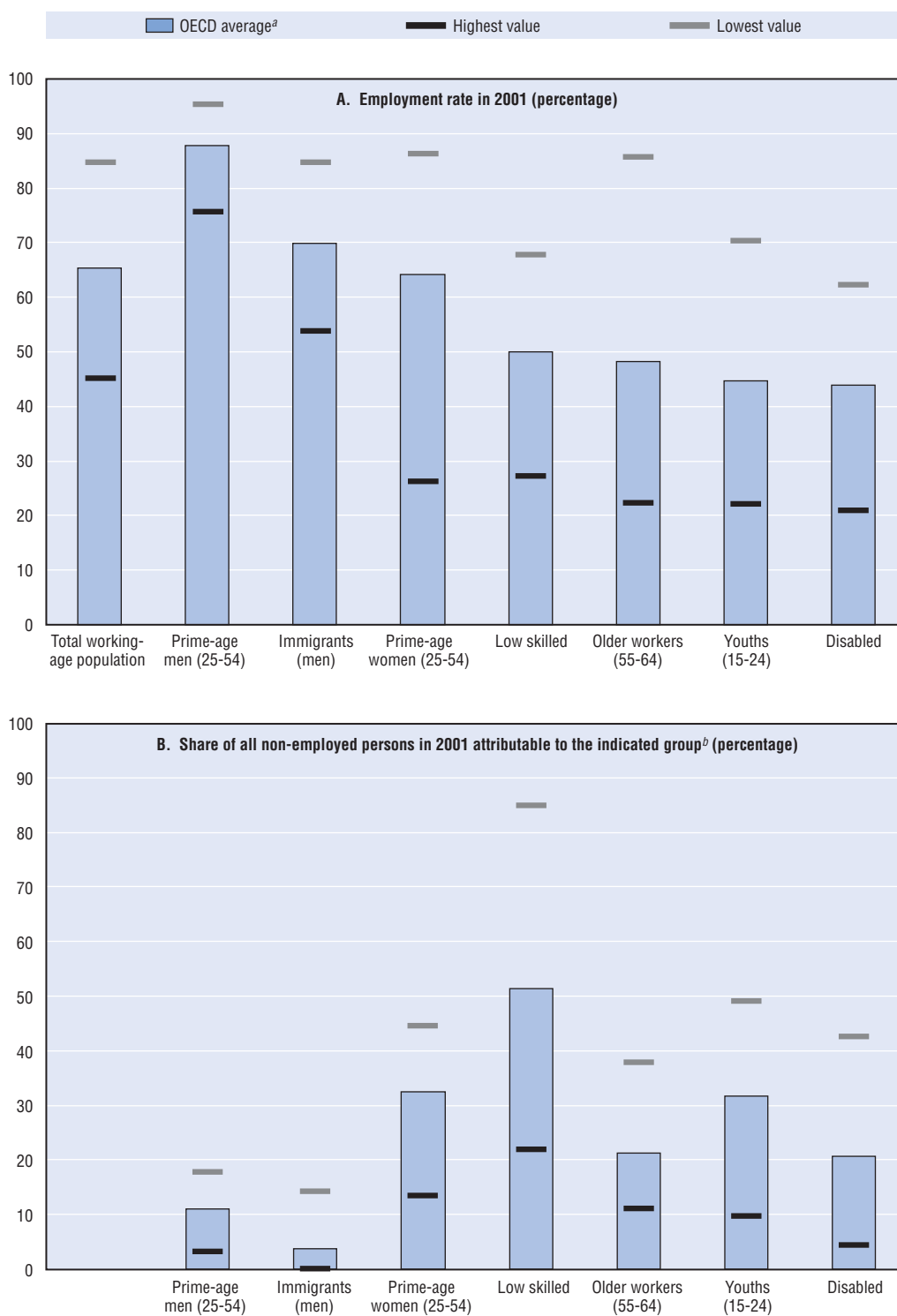
Source: Secretariat calculations using national population estimates and projections (medium variant), and historic participation data from the OECD database on Labour Force Statistics and ILO (1996).

Large differences in employment rates suggest room for raising employment of certain groups

As is shown in Chart 2.3, Panel A, employment rates for prime-age men are substantially higher than those for many other groups in the working-age population, including prime-age women, older and younger age groups, immigrants and persons with low educational attainment or disabilities. These comparisons suggest that there might be considerable scope for raising overall employment rates by better integrating groups that are under-represented in employment into the labour market. However several complications arise in reasoning from under-represented groups to mobilisable labour. A first complication is the need to take account of the very different sizes of these groups. For example, the employment rate of low-skilled persons is higher than that for persons with disabilities, yet the former represent a much larger share of total non-employment and potential labour supply (Chart 2.3, Panel B). A second complicating factor is that there is some overlap between the groups.⁷ This overlap means that summing all of the groups would over-estimate potential labour supply, but also that some individuals face multiple barriers to participating in the labour market (Berthoud, 2003). A final complication lies in the difficulty of determining how much of the employment gap between prime-age men and the various under-represented groups can or should be closed. In many cases, there appear to be good reasons for these groups to be employed at lower rates than prime-age men: in some cases, employment may be simply impossible (*e.g.* for persons with severe disabilities); in other cases, employment may be feasible but undesirable, since opportunity costs would exceed economic returns.⁸

International comparisons represent a second source of benchmarks for assessing the scope to increase employment rates. The possibility that policy choices could have a quantitatively important impact on overall employment is rendered more plausible by the observation that aggregate employment rates for OECD countries differ by up to 40 percentage points, ranging from 45% to 85% of the working-age population (Chart 2.3, Panel A). Moreover, most of the cross-country variation in aggregate employment rates is due to international differences in the employment rates of different population groups, rather than to differences in population mix.⁹ International variations in employment rates are greatest for under-represented groups, suggesting that a key determinant of overall employment rates may be how well national labour markets facilitate the participation of these groups in employment. For example, employment rates for prime-age women range from a low of 26% to a maximum of 86% (which is virtually identical with the OECD average rate for prime-age men). This is three times the range observed for prime-age men and suggestive of substantial untapped labour potential among prime-age women in countries where their employment rate is especially low.

The *international benchmark* estimates of mobilisable labour, which are presented below, are motivated by the intuition that an internationally low employment rate for a particular population group in a particular country is *prima facie* evidence that the group represents a reservoir of under-utilised labour resources. It need not follow, however, that the potential labour supply identified in this manner should be mobilised or, in any case, could be easily mobilised. Accordingly, an alternative, *self-response* estimate of potential labour supply is also presented, based on non-employed persons who state that they would like to work.

Chart 2.3. **Some groups are significantly under-represented in employment**

a) Population-weighted averages for, respectively, all OECD countries (prime-age men, prime-age women, low skilled, older workers, youth), the 23 countries shown in Chart 2.9 (male migrants) and the 19 countries shown in Chart 2.10 (disabled).

b) The immigrant, low-skilled and disabled groups overlap with the four age-gender groups.

Source: See Charts 2.6-2.10.

International-benchmarking estimates of potential labour supply

The international benchmark estimates were computed as follows:

- The working-age population in each country was divided into six sub-groups defined by gender and the three age ranges, under 25, 25-54, and 55-64.
- An international-benchmark participation rate for each sub-group was selected as the third highest value observed in the OECD in 2001.¹⁰
- “Excess inactivity” was then defined as any (positive) excess of inactivity above the population share implied by the benchmark participation rate (this was calculated separately for each sub-group and then summed to yield total excess inactivity).
- “Excess unemployment” was defined as any (positive) excess of unemployment in 2001 above 5%¹¹ (this was first calculated for the total working-age population and then “allocated” across the sub-groups according to their shares of total unemployment).
- Total mobilisable labour resources are calculated as the sum of excess inactivity and excess unemployment.¹²

Chart 2.4 presents the international-benchmark estimates of mobilisable labour resources (i.e. the potential increase in employment that could be achieved by mobilisation policies) for the 28 OECD countries for which the necessary data could be assembled. By construction, the benchmark estimates of mobilisable labour resources produce strong international convergence in employment rates.¹³ The estimated potential for raising employment rates averages 12% and ranges from 35% in Turkey (where the current employment to population ratio is 45%) to zero in Iceland (current employment to population ratio of 88%). Excess inactivity accounts for 92% of mobilisable labour resources and unemployment for just 8% (OECD averages, see Chart 2.4, Panel A). Women of all ages contribute 71% of the total and persons aged 55-64 contribute 29%, for a combined contribution of 83% (once account is taken of the overlap between the two groups). As discussed in the previous sub-section, the relative importance of older persons to potential labour supply will rise strongly in coming decades, particularly if retirement ages continue to fall.

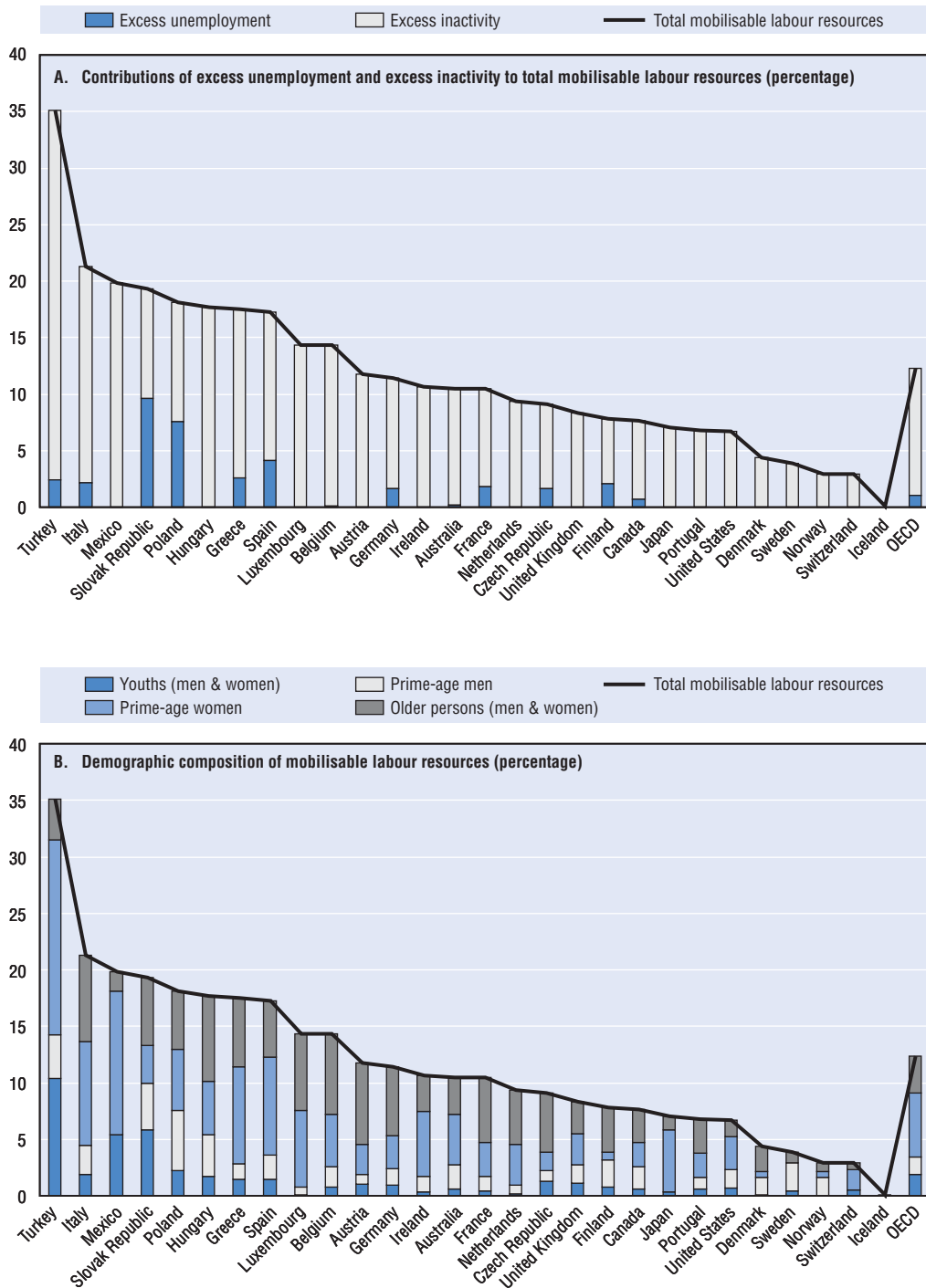
The benchmark estimates of mobilisable labour probably provide an upper-bound estimate of potential labour supply in low-employment countries, since cultural or other factors may mean that an employment rate somewhat below the international frontier is appropriate for these countries. Accordingly, these estimates are perhaps most informative for identifying the population groups that would have to be integrated into paid employment should OECD countries with relatively low or moderate employment rates wish to approach the higher employment rates recorded in the Nordic countries or Switzerland (the benchmark countries in most cases). The conclusion that emerges is that such countries generally should place top priority on attracting more women into the labour force and inducing older workers to delay retirement.

Inactive persons wanting to work: self-response estimates of potential labour supply

A second approach to estimating potential labour supply among persons outside of the labour force is to identify the subset of inactive persons who would be predisposed to respond to improved employment opportunities by entering the labour force. This is a hypothetical criterion that cannot be directly implemented using standard labour force survey (LFS) data. However, LFS data provide indirect indicators which suggest that a

Chart 2.4. **Raising participation among women and older persons is key**

International-benchmark estimates of mobilisable labour resources,^{a, b} 2001



Note: OECD: Population-weighted average for the 28 countries shown.

a) Mobilisable labour resources are shown as the vertical sum of excess unemployment and excess inactivity. Excess unemployment is defined as unemployment above 5% of the labour force (if any). Excess inactivity is based on comparisons between actual participation rates for cells defined by age and gender, and international benchmark rates (see text for details).

b) Countries are shown from left to right in descending order of mobilisable labour resources.

Source: Secretariat calculations based on OECD database on Labour Force Statistics and OECD database on Labour Market Status by educational participation.

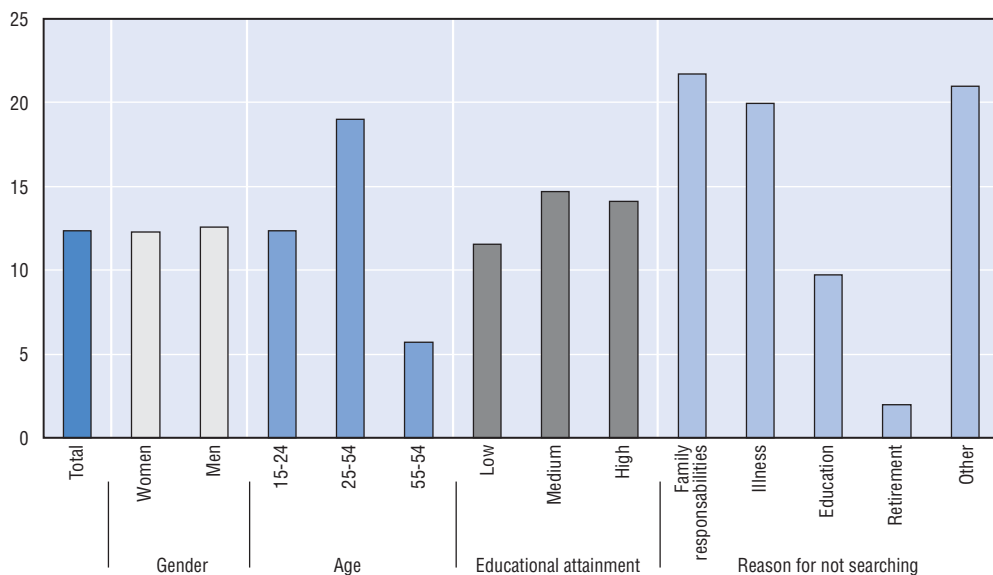
significant share of inactive persons would enter the labour market under the right conditions. In particular, the number of inactive persons of working age saying that they would like to work provides a *self-response* estimate of potential labour supply. On average for the 19 countries covered by the European Labour Force Survey, this criterion identifies 12% of inactive persons (corresponding to 7% of the working-age population) as constituting a reserve of potential labour supply (Chart 2.5). This share does not vary much between men and women, but is above average for inactive persons of prime-working age or having at least completed upper secondary schooling. The share of inactive persons indicating a desire to work also varies significantly, according to the reason that they cite for not searching for a job. Persons citing family responsibilities are most likely to express a desire to work (22%), but those citing illness or “other” reasons are nearly as likely to do so. By contrast, only one in ten persons citing education want to work (currently) and persons describing themselves as retired are very unlikely to want to work.

It is difficult to assess the behavioural significance of the self-response estimates of potential labour supply. *A priori*, the self-response data will tend to over-estimate potential labour supply to the extent that inactive persons saying that they want to work exaggerate their willingness to accept a job, taking full account of the reasons they are not, in fact, working. Conversely, these data will tend to under-estimate potential labour supply in the long run, to the extent that they reflect preferences under existing conditions and, hence, miss some of the additional labour supply that would emerge should policy reforms render work more attractive in a way that is sustained. Table 2.A1.1 (in Annex 1) shows that this

Chart 2.5. Many inactive individuals (but few retirees) want to work

Self-response estimates of potential labour supply in Europe by gender, age, educational attainment^a and reason for inactivity, 2001

Share of inactive persons of working age wanting to work (percentage)^b



a) Low educational attainment corresponds to not having completed upper secondary schooling and high educational attainment to having completed a university or tertiary degree.

b) Population-weighted averages for Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, the Slovak Republic, Spain, Sweden and the United Kingdom.

Source: Secretariat calculations based on the European Labour Force Survey, data provided by Eurostat.

second bias is potentially large. Survey questions inquiring about respondent's desire to work, either currently or in the future, generate significantly higher estimates of potential labour supply, averaging 64% of inactive persons of working age across the countries analysed.¹⁴ Despite these caveats, the self-response estimates should give some indication of the share of persons outside of the labour force who would be receptive to working, if policy initiatives should increase their access to employment or made it easier for them to reconcile work with their other obligations and activities.¹⁵

Comparing the benchmark and self-response estimates of potential labour supply

The benchmark estimate of potential labour supply is higher than the self-response estimate for the OECD as a whole and this difference is especially pronounced in low-employment countries.¹⁶ This difference suggests that a substantial share of the existing gaps in employment rates across OECD countries can only be closed by attracting inactive persons into the labour force who are “distant” from the labour market, in that sense that they are not currently predisposed to respond to improved employment opportunities by entering the labour market. Within countries, the benchmark estimates of potential labour supply are more strongly concentrated among women and, especially, older persons than are the self-response estimates. The fact that the potential labour supply identified using self-response data includes many fewer older persons probably indicates that it would be difficult to reverse retirement decisions, once taken. However, it may be easier to encourage future cohorts of workers to delay or phase in their retirement.¹⁷

2. The many faces of non-employment

This section provides a descriptive overview of groups in the working-age population that are under-represented in employment. In addition to women and older workers – groups that were highlighted in the analysis of potential labour supply in Section 1 – other groups potentially on the margins of the labour market are considered, including youths, low-skilled persons, persons with disabilities and immigrants.¹⁸ The intent is to provide a more detailed portrait of the *diversity* of non-employment and to bring out international differences, or other patterns, that shed some light on the causes of low employment rates that might be amenable to policy interventions. The considerable overlap across these groups means that they should not be summed to arrive at an overall estimate of persons at risk of exclusion from the labour market, but also that some individuals confront multiple barriers to participating in the labour market. Although not analysed here, it also should be borne in mind that non-employment is strongly concentrated in lagging regions and localities in many OECD countries (OECD, 2000a). Accordingly, policies addressing employment barriers which are associated with the individual characteristics analysed here should be combined with economic development strategies for increasing employment opportunities in the local labour market.

A. Women are still significantly under-represented in the labour market

The secular increase in female participation continued in almost all countries over the past decade, accompanied by a decline in unemployment in countries where aggregate labour market conditions improved (Chapter 1). However, despite these positive developments, the labour market position of women is still lagging behind that of men: inactivity rates were on average 21 percentage points higher in 2001, translating into a gender employment gap of 20 percentage points and women accounting for nearly

two-thirds of all non-employment in the working-age population (Chart 2.6). However, these OECD averages hide very large differences across countries, with the inactive share of working-age women ranging from 17% in Iceland to 73% in Turkey. Cultural differences may account for an important share of these differences, but the large increases in female participation that have occurred in many OECD countries during the past several decades indicate that economic and institutional factors also play an important role and can be influenced by policy choices.¹⁹

The tendency for women to be under-represented in employment is also particularly strong for the least educated women and mothers with young children (OECD, 2002a).²⁰ Non-employment among mothers is of particular concern when they are lone parents. Non-employment rates actually tend to be slightly lower for the 3% of women who are lone parents than for other women (43% *versus* 45%, according to 2001 data from the European Labour Force Survey for 14 EU countries). However, lone mothers are much more likely than other women to be in a jobless household, since they are the only potential earners in their households. Whereas 15% of women of working age who are not lone parents live in a jobless household, this rate rises to 43% for lone mothers.²¹

B. About 15% of youths are neither working nor studying in the OECD as a whole

Employment rates are substantially higher and more uniform internationally for the prime-age population (*i.e.* persons aged 25 to 54) than for their younger and older counterparts (compare Panel B of Chart 2.7 with Panels A and C). The non-employment rate for youths (persons aged 15 to 24) is 32 percentage points higher than for prime-age workers for the OECD as a whole, but the majority of non-employed youths are enrolled in education and this throws a different light on the low youth employment rate.²² The proportion of youths neither employed nor studying averaged 15% for the OECD as a whole. This is below the non-employment rate of prime-age persons (24%) and such youths represent less than 5% of total non-employment (not associated with schooling) in the working-age population. However, this group is quite large in a few countries, representing approximately 20% of youths in Italy and Mexico, 31% in the Slovak Republic and 40% in Turkey. Furthermore, out-of-school youths who are not working raise particular social concerns, since their long-run career prospects could be compromised by early difficulties in the labour market. Research results have been mixed concerning these so-called “scarring” effects, but nearly unanimous that early school leavers lacking a solid base of cognitive and vocational skills fare poorly in the labour market (Burgess *et al.*, 2003; Neumark, 1998).

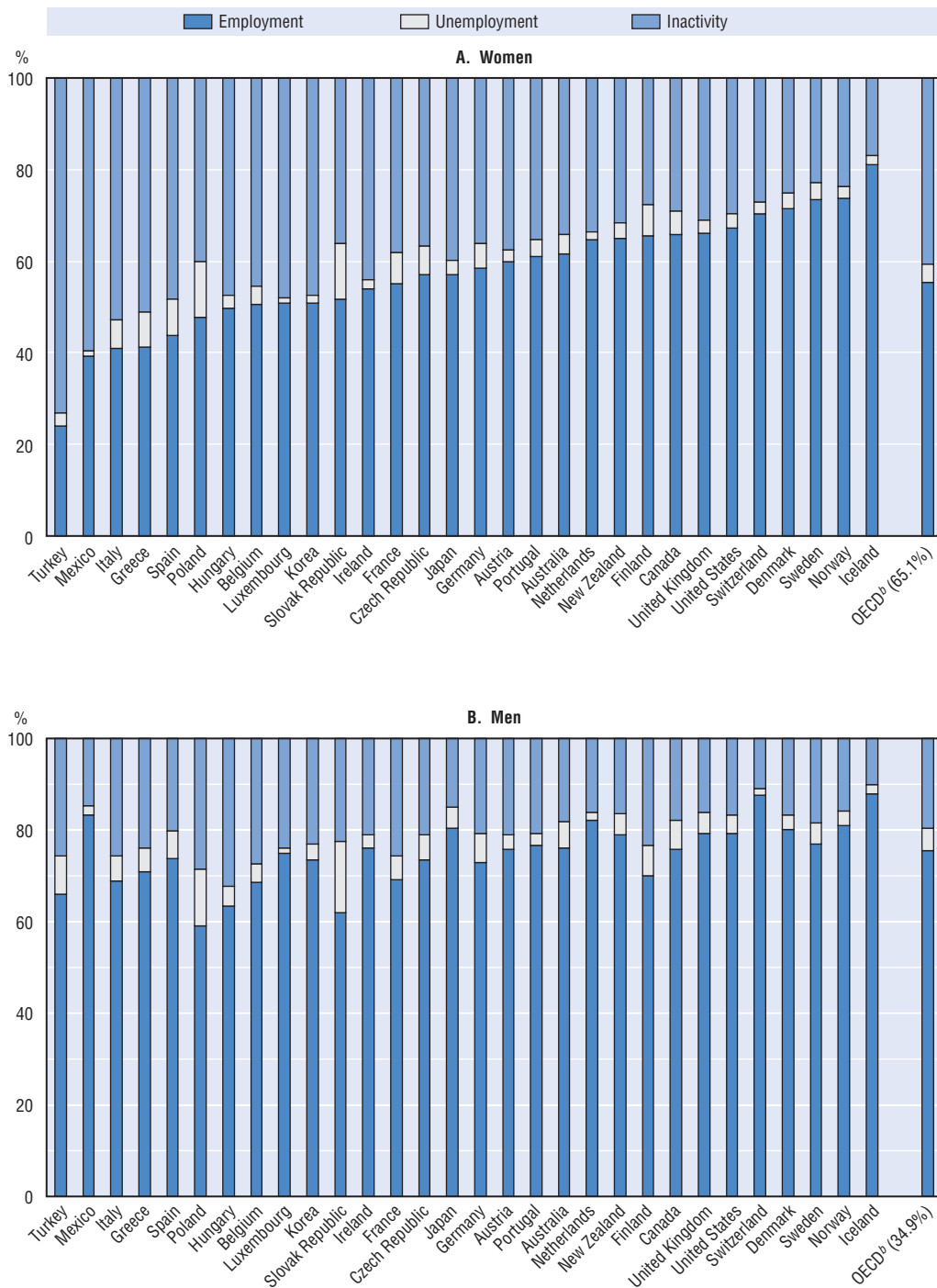
C. Withdrawal from the labour market starts well before the official retirement age

For the OECD as a whole in 2001, the non-employment rate of older individuals – defined here as those aged 55 to 64 – averaged just over 50%, as compared with a little under 25% for prime-age individuals (Chart 2.7). As a result, the older age group accounts for a third of total non-employment in the (non-student) working-age population. The decline in employment for persons nearing the conventional retirement age of 65 is entirely due to an increase in the inactivity rate (50% for older persons *versus* 20% for persons of prime working age), since unemployment rates (as a share of population) are considerably lower for the older group (2% *versus* 4%).²³ The patterns of labour force withdrawal with age are very diverse across OECD countries (OECD, 2002e). Inactivity rates for older persons are highest in Central and East European countries (especially, Hungary

Chart 2.6. Women’s participation rates vary widely across OECD countries

Decomposition of the working-age population between employment, unemployment and inactivity by gender, 2001

Percentages of the indicated groups^a



a) Countries ordered from left to right by increasing employment to population ratio for women.

b) Population-weighted average for the countries shown (value in parenthesis is group’s share of total non-employment).

Source: OECD database on Labour Force Statistics.

Chart 2.7. Withdrawal from work starts well in advance of age 65 in most OECD countries

Decomposition of the working-age population between employment, unemployment and inactivity by age, 2001
 Percentages of the indicated groups^a



a) Countries ordered from left to right by increasing employment to population ratio for older workers. Korea and New Zealand do not appear in Panel C because the necessary data on school enrolment are not available.
 b) Population-weighted average for the countries shown (value in parenthesis is group's share of total non-employment).
 Source: OECD database on Labour Force Statistics and OECD database on Labour Market Status by Educational Participation.

and the Slovak Republic), where the transition from centrally-planned to market-based economies was accompanied by large reductions in participation among older workers, and in some EU countries (especially, Austria, Belgium, France, Italy and Luxembourg), where extensive use has been made of early-retirement and other benefit schemes to encourage older workers to withdraw from the labour market (OECD, 2002e). At the other end of the spectrum, only 13% of older individuals are outside the labour force in Iceland and only approximately one-third in Japan, Norway, Sweden and Switzerland.

There are various pathways out of the labour market and reasons for non-participation, and these differ in importance across countries (Table 2.1). A large share of persons aged 50 to 64 describe themselves as “retired” in countries that have had broad recourse to early retirement programmes as a way to deal with mass layoffs or persistently high unemployment.²⁴ However, the proportion of this age group citing either illness or disability as the reason for inactivity is quite high in several countries, exceeding one in five in Poland and being near 15% in Denmark, Finland, the Netherlands and the United Kingdom. In some of these countries, there are no or fewer “formal” early retirement schemes than in countries such as Belgium (OECD, 2003b), so disability benefits may be

Table 2.1. Older workers follow multiple pathways out of the labour market

Labour force status of persons aged 50 to 64 years and reasons for being inactive, 2000

	Active			Inactive					
	Employed	Unemployed	Total	No work available	Retired	Illness or disability	Family duties	Other	Total
Austria	44.1	3.1	47.2	0.3	38.2	2.4	7.6	4.3	52.8
Belgium (2001)	40.9	1.2	42.1	28.4	28.3	0.3	0.1	0.8	57.9
Czech Republic	54.8	3.6	58.4	0.3	31.5	8.7	0.6	0.6	41.6
Denmark	65.3	2.6	67.9	0.6	13.8	13.8	2.2	1.8	32.1
Finland	58.4	5.0	63.4	2.0	12.3	15.9	1.3	5.1	36.6
France	48.7	4.0	52.7	..	..	..	..	..	47.3
Germany	48.6	6.0	54.6	0.4	28.7	4.1	5.0	7.1	45.4
Greece	47.1	2.2	49.2	0.2	21.2	2.3	12.5	14.6	50.8
Hungary	39.1	1.6	40.6	1.8	47.2	6.5	0.8	3.2	59.4
Iceland	89.3	0.6	89.9	0.6	0.0	6.6	1.3	1.7	10.1
Ireland	53.0	1.7	54.8	..	..	..	..	..	45.2
Italy	38.4	1.8	40.2	1.9	28.9	4.2	18.4	6.3	59.8
Korea ^a	62.6	1.8	64.3	..	2.4	1.6	25.5	6.1	35.7
Luxembourg	42.3	0.7	43.0	0.0	20.2	7.9	25.2	3.7	57.0
Netherlands	52.0	1.1	53.1	1.2	11.0	13.3	7.3	14.0	46.9
Norway	72.8	0.9	73.7	..	..	..	..	..	26.3
Poland	43.3	4.6	48.0	2.5	15.7	22.3	4.8	6.7	52.0
Portugal	59.0	2.1	61.1	0.1	16.0	7.0	9.5	6.3	38.9
Slovak Republic	40.5	6.1	46.6	0.3	50.4	1.5	0.8	0.3	53.4
Spain	44.6	4.6	49.2	0.9	10.3	7.1	12.7	19.8	50.8
Sweden	72.0	4.1	76.1	..	..	..	..	..	23.9
Switzerland	71.0	1.5	72.5	0.3	11.9	4.3	9.5	1.4	27.5
United Kingdom	60.7	2.8	63.4	0.5	12.8	14.2	5.1	3.9	36.6
OECD^b	50.6	3.4	54.1	1.3	16.9	6.6	8.5	6.2	45.9

.. Data not available.

a) The category “other” includes the reason “no work available”.

b) Population-weighted average for countries shown.

Source: European Union Labour Force Survey 2000 and 2001; Korean Survey of the economically active population.

servicing as an alternative route to early retirement. Indeed, the receipt of disability benefits rises strongly with age, particularly in Austria, the Netherlands, Norway, Poland, Portugal and Sweden (OECD, 2003a and Chapter 4 of this publication). In Korea and Luxembourg, over 25% of those aged 50 to 64 cite family duties, which probably reflects caring for older relatives, as the reason for being inactive.

D. Fewer than one-half of the less educated are employed in the OECD as a whole

Employment rates are significantly lower for less educated persons than for their more educated counterparts,²⁵ and persons not having finished upper secondary schooling account for over half of non-employment (Chart 2.8). In 2001, the employment rate for persons not having completed upper secondary schooling was a little below 50% for the OECD area as a whole, as compared with over 80% for working-age persons with a university or tertiary degree. Fully 45% of working-age persons in the low-education group were neither working nor looking for a job in 2001, as compared to 24% of their medium-educated counterparts and 15% of high-educated individuals. These large differences in participation suggest that the more limited labour market opportunities available to workers not having completed secondary schooling have a strong discouraging effect on participation, a pattern which appears to have become more pronounced in recent decades (Gregg and Manning, 1996; Juhn, 1992). When in the labour force, this group also tends to experience higher unemployment than the high-educated group, but similar unemployment to the medium-educated group (an OECD average of 5% for low and medium-educated workers *versus* 3% for high-educated workers).

There are major differences across OECD countries in the extent to which low education is associated with low participation and employment rates. The proportion of low-educated individuals who are inactive is over 50% in Central and Eastern European member countries, Belgium, Italy and Turkey. At the other extreme, it is under 20% in Iceland, and also relatively low in Japan and Portugal (28 and 29%, respectively). Participation rates are more uniform internationally for medium and, especially, high-educated individuals. There is also significant cross-country variation in unemployment rates for low-educated persons, which tends to reinforce the differences in participation. The unemployment to population ratios for less educated workers are highest, at between 8 and 13%, in the Czech Republic, the Slovak Republic, and Poland – bringing non-employment for low-educated individuals above 70% in these three countries.

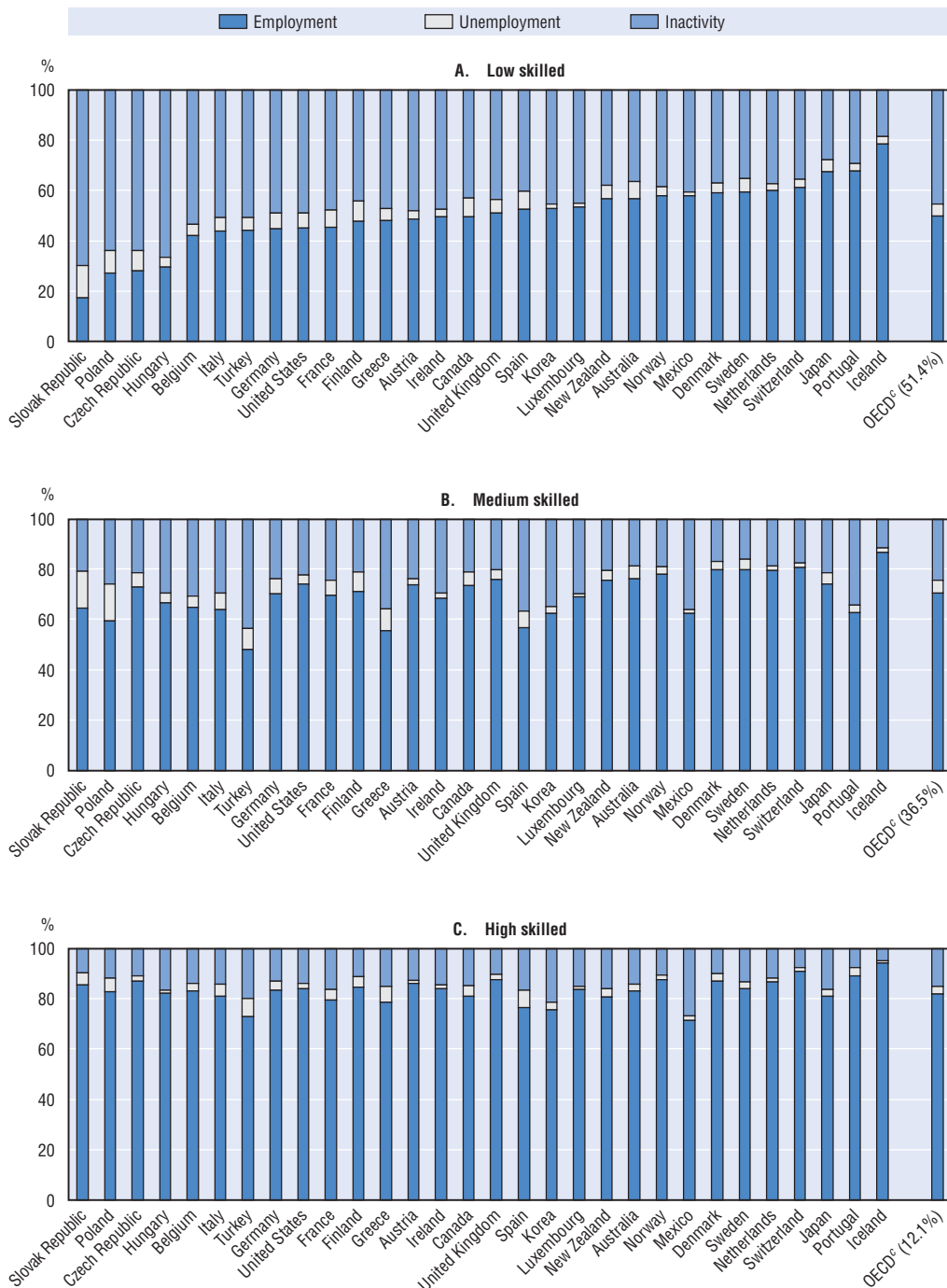
E. Immigrants: a very heterogeneous group

Immigrants are another group that sometimes occupies a disadvantaged position in the labour market and whose economic (and social) integration raises particular concerns (Borjas, 1999; Coppel *et al.*, 2001; OECD, 2001). However, this is a very heterogeneous group, as the country of origin and the reason for and timing of immigration may all affect labour market outcomes in the host country (OECD, 2001 and 2002g). Immigrants are also very diverse as concerns educational qualifications: in the majority of OECD countries in Europe and North America, foreigners are over-represented in both the low and high-education groups, as compared to nationals.

In 1999-2000, the employment rates of foreigners were lower than those of nationals in the majority of OECD countries for which data are available (Chart 2.9). However, the average difference was small, particularly for men (70% *versus* 74%). Foreign men actually had a higher employment rate than their native counterparts in some countries, including

Chart 2.8. Low skilled account for half of total non-employment in the OECD area

Decomposition of the working-age population between employment, unemployment and inactivity by educational attainment,^a 2001
Percentages of indicated groups^b

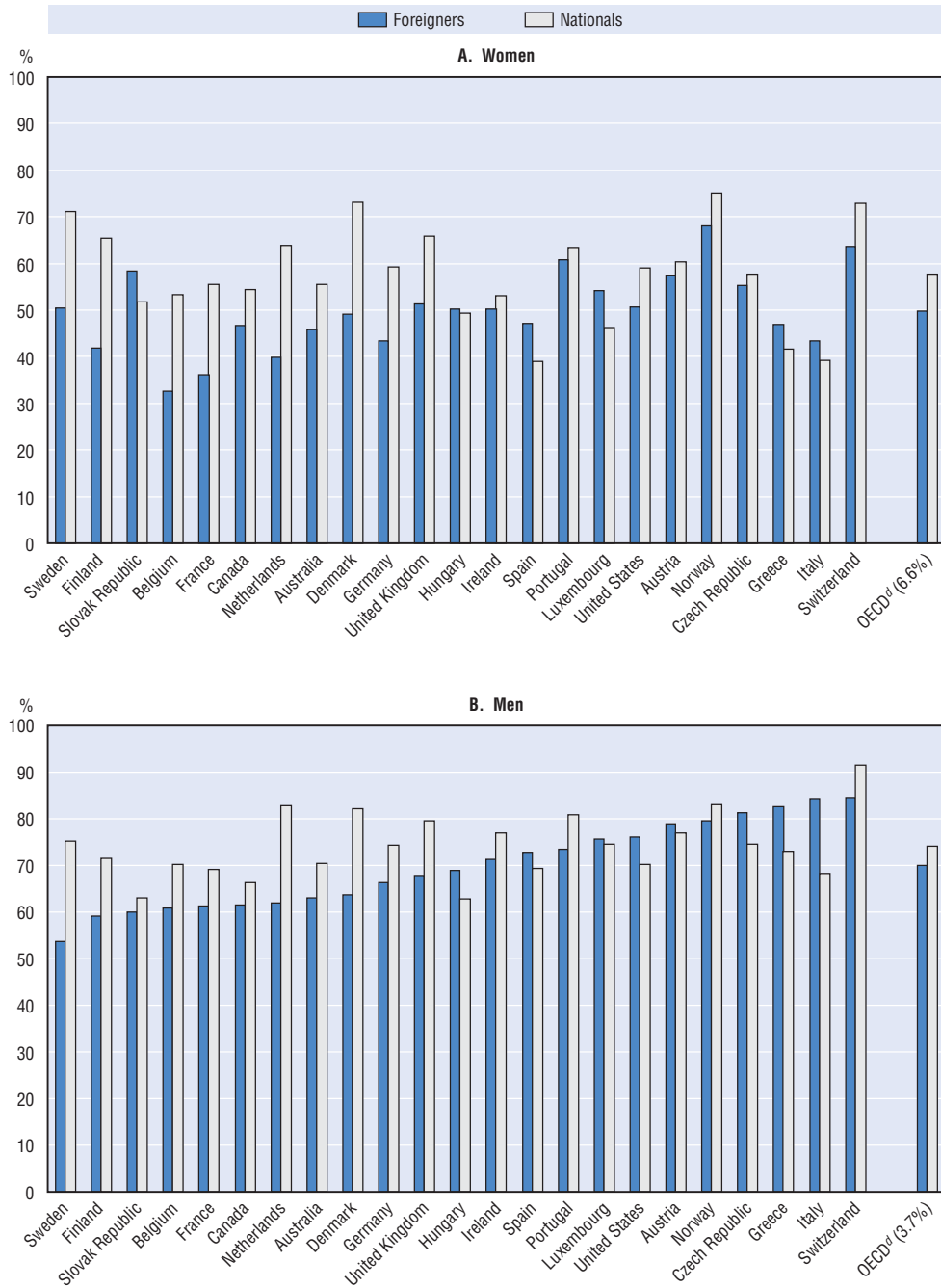


a) Low educational attainment corresponds to not having completed upper secondary schooling and high educational attainment to having completed a university or tertiary degree.
b) Countries ordered from left to right by increasing employment to population ratio for low skilled persons.
c) Population-weighted average for the countries shown (value in parenthesis is group's share of total non-employment).

Source: OECD (2003), *Education at a Glance*.

Chart 2.9. Employment gap is small for immigrant men in all but a few countries

Employment rates of working-age nationals and foreigners^a by gender in selected OECD countries, 1999-2000 averages^{b, c}



- a) Nationals and foreigners refer to persons born in the host country and born abroad, respectively, for Australia, Canada, Hungary and the United States.
- b) Countries ordered from left to right by increasing employment to population ratio for foreign men.
- c) August 2000 for Australia; 1996 for Canada and March 2000 for the United States.
- d) Population-weighted average for the countries shown (value in parenthesis is the share of total non-employment attributable to foreigners of the indicated gender).

Source: Labour Force Survey, data provided by Eurostat and by the Australian Bureau of Statistics; 1996 census, Statistics Canada; Current Population Survey, US Bureau of the Census.

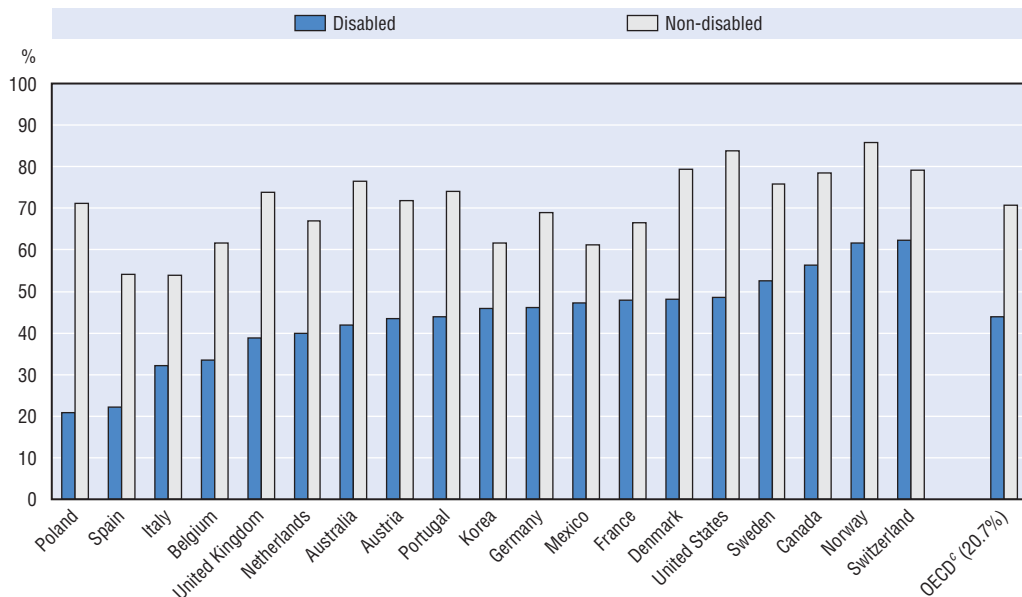
Central, Eastern and Southern European countries and the United States. The average employment gap for foreigners is twice as large for women as it is for men (8 as compared with 4 percentage points). Employment rates for foreign women lagged those for their national counterparts most strongly in Denmark, Finland and the Netherlands, while the employment rates of foreign women were lowest in Belgium and Spain. In general, differences between foreigners and nationals in employment are relatively small compared with the differences analysed above between men and women, age groups and educational groups. Foreigners represented just 10% of total non-employment on average in 2001, but this share was significantly higher in a few high-immigration countries.

F. Few persons with disabilities are in work

Employment rates for working-age disabled people are significantly lower than for non-disabled (Chart 2.10). For the 19 countries for which data are available, the

Chart 2.10. **Employment rate of disabled persons varies widely across OECD countries**

Employment rates of disabled and non-disabled persons aged 20-64 in selected OECD countries,^{a, b} late 1990s



a) Disability status based on self-assessment of survey respondents.

b) Countries are ordered from left to right by increasing employment to population ratio for disabled persons.

c) Unweighted average of the 19 countries shown (value in parenthesis is disabled persons' share of total non-employment).

Source: OECD (2002), *Society at a Glance*.

employment rate for persons who assess themselves as having a disability was 27 percentage points lower than for persons saying that they were not disabled (employment to population ratios of 44% and 71%, respectively). In more than half of the OECD countries analysed, the employment rate of disabled people varies between 40 and 50%. However, employment rates of the disabled vary widely in other countries. In Switzerland and Norway, the rate is over 60%, while relatively few working-age people with disabilities are in work in Poland and Spain (21% and 22%, respectively). On average, the

disabled account for 21% of non-employment in the working-age population, but there is a large overlap between the disabled and older groups because disability incidence rises strongly with age (OECD, 2003a).

A study conducted by the OECD (2003a) looks at the labour market situation of disabled persons in detail and concludes that more should be done to integrate them into employment (see also Chapter 3 of this publication). Employment rates for *severely* disabled people are only about one third of those of the non-disabled population, with little variation across countries, consistent with many such individuals not being capable of participating in the labour market. However, employment rates for *moderately* disabled individuals are much higher, averaging around 70% of those of non-disabled people, and cross-country variation is much greater for this group, suggesting a considerable scope for policies to foster employment for this group. It also appears that encouraging employment among disabled persons able to work can result in important welfare gains related to improved social and economic outcomes. Thus, persons with disabilities appear to be an appropriate target group for policies to foster participation and employment, especially in countries with a high incidence of non-employment among moderately disabled individuals. However, this group often has specific needs that must be addressed (e.g. medical and vocational rehabilitation, reorientation or training if the disability is such as to require a change of occupation, and special equipment or structures to facilitate their access to work).

3. Getting into work, staying there and moving up job ladders

Sections 1 and 2 suggest that there may be considerable scope to increase employment rates, provided that policies to lower unemployment are complemented with measures to foster greater labour force participation. The evidence presented also points to the highly diverse nature of the non-employed population of working age, suggesting that successful policy initiatives need to be clear about the groups to be mobilised and the barriers currently limiting their participation in employment. This section uses longitudinal data for 11 European countries and the United States to shed some further light on these barriers. Many of the under-represented groups highlighted in Sections 1 and 2 above are considered, but a longer-run view of their situation is provided by following individuals over a five year period and analysing how frequently inactive persons enter the labour market and how they fare.²⁶ Among the questions posed are: i) what share of persons not working in any specific year is at high risk of getting locked into inactivity; ii) among persons finding employment, how great is the risk of employment instability; iii) how great is the risk of being trapped in low-paid jobs; iv) how frequently do non-employment and low-paid employment result in poverty; and v) do these patterns differ across demographic groups and OECD countries?

A. Inactivity traps from a multi-year perspective

Table 2.2 provides a first look at non-employment dynamics and how they vary across groups in the working-age population. This transition matrix presents probabilities of moving between different main activity statuses, which were calculated for working-age persons in Europe during 1997-98.²⁷ The values on the main diagonal of this matrix indicate a high degree of persistence in many of these states, particularly in employment of 15 or more hours per week (93%), and in the homemaker (85%) and retired (93%) categories of inactive persons. Nonetheless, some non-employed groups move into

employment in considerable numbers: 36% of the persons classified as unemployed in 1997 were employed the following year, compared with 15% to 20% for discouraged workers or persons in education or training. However, the corresponding rates are much lower for most other groups outside of the labour force (the only exception being the small number of persons in military/community service), especially for retirees. Clearly, the unemployed and persons nearing the end of their formal schooling (or military/community service) are much “closer” to the labour market than are most persons classified as being outside of the labour force. In particular, the low transition rates into employment of homemakers and retirees – two groups which received much attention in Sections 1 and 2 – confirm that the benchmark estimates of potential labour supply include many persons showing only a weak tendency to move into employment.²⁸

Table 2.2. **Big differences in how easily non-employed groups move into employment**

Movements between main activity status for working-age persons in Europe, 1997-1998
One-year transitions probability (percentages)^a

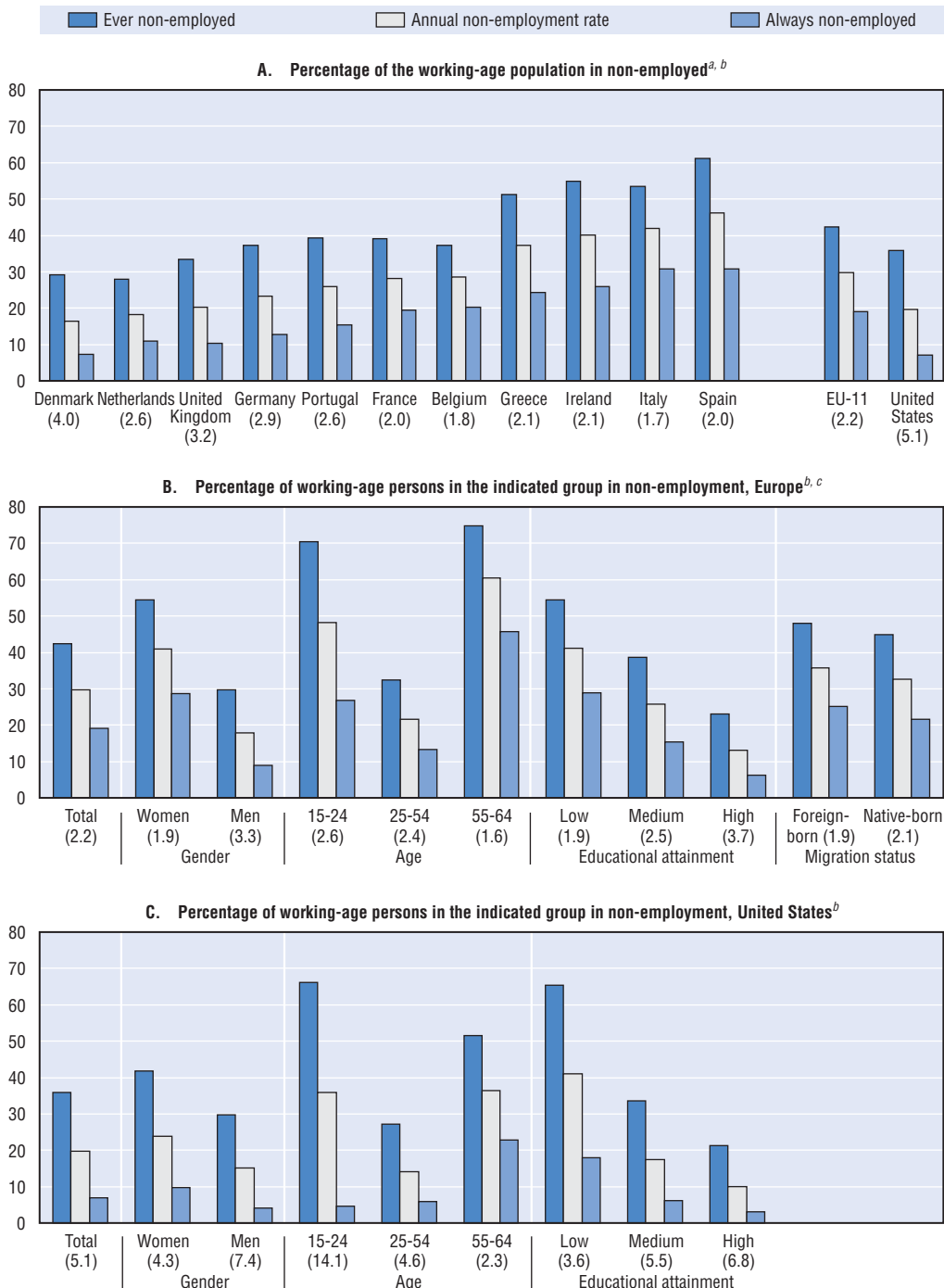
	Main status in 1998								
	Employed (at least 15 hours per week)	Employed (less than 15 hours per week)	Unemployed	Discouraged workers	In education or training	Military or community service	Homemaker	Retired	Other inactive
Main status in 1997									
Employed (at least 15 hours per week)	92.8	1.6	2.7	0.1	0.3	0.1	0.9	1.2	0.3
Employed (less than 15 hours per week)	31.7	43.8	4.7	0.1	6.2	1.0	8.1	3.7	0.8
Unemployed	32.1	3.8	46.3	3.2	3.7	0.5	6.6	3.1	0.7
Discouraged workers	13.9	1.6	32.2	20.4	2.8	0.2	24.0	2.1	2.8
In education or training	14.2	5.6	8.8	0.2	68.4	1.5	0.7	0.0	0.6
Military/community service	45.8	6.9	25.5	1.0	11.8	8.8	0.1	0.0	0.2
Homemaker	4.7	2.8	3.2	0.9	0.2	0.0	84.7	2.1	1.3
Retired	0.6	1.8	0.6	0.1	0.0	0.0	2.4	93.1	1.3
Other inactive	6.9	2.6	4.8	1.1	1.6	0.6	13.2	8.0	61.1
Total sample	63.2	3.8	6.4	0.5	5.6	0.3	11.8	7.1	1.3

a) Population-weighted averages for 12 European countries (Austria and the 11 EU countries reported in Chart 2.11.).
Source: Secretariat calculations based on the European Community Household Panel, waves 4 and 5 (1997 and 1998).

A richer picture of the importance and nature of inactivity traps emerges when non-employment dynamics are analysed over a five year period. Chart 2.11 provides a comparison of the *annual* rate of non-employment (i.e. non-employment rates in a cross-section, such as were analysed in Sections 1 and 2 above) with two measures of non-employment incidence over five years: the larger share of persons *ever* non-employed during the five year period and the smaller share of *always* non-employed. If there were no turnover in non-employment, the ever, annual and always non-employed incidence rates would be equal. In fact, 2.2 times as many working-age persons in Europe were non-employed at some point during the five year period as were continuously non-employed during that period, implying considerable movement into

Chart 2.11. Considerable turnover in non-employment

Alternative incidence measures of non-employment over five years in Europe and the United States



Note: EU-11: Population-weighted average for the European countries shown.

a) European countries shown in ascending order of single-year rates of non-employment.

b) Values within parenthesis below the country and group labels are the ratio of the ever to the always non-employed rates (an index of turnover).

c) Population-weighted averages for the 11 European countries reported in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

and out of non-employment (Chart 2.11, Panel A). Turnover in non-employment – as indicated by the ratio of ever jobless to always jobless – is considerably higher in the United States, where five times as many persons were ever jobless during the five year period, as were always jobless. However, there is considerable diversity within Europe, with non-employment incidence and turnover in Denmark, the Netherlands and the United Kingdom close to that observed in the United States. Both the comparison of the United States with the European average and cross-country comparisons among EU countries suggest that non-employment turnover is lower in countries where the annual non-employment rate is higher. This suggests that labour market institutions that facilitate movements into (and out of) jobs may help to raise overall employment rates.²⁹

Demographic differences in the dynamics of non-employment are also apparent (Chart 2.11, Panels B and C). The qualitative patterns are similar in Europe and the United States, with turnover being lowest for the 55 to 64 age group and highest for youths. Turnover in non-employment is also lower for women than for men. As for international comparisons, demographic groups with higher single-year incidences of non-employment tend to have lower turnover.³⁰ Consequently, the under-represented groups identified as being at a relatively high risk of non-employment using cross-sectional data (e.g. in the analysis of Sections 1 and 2), tend to have a risk of being always non-employed that is even further above the average value for the working-age population.

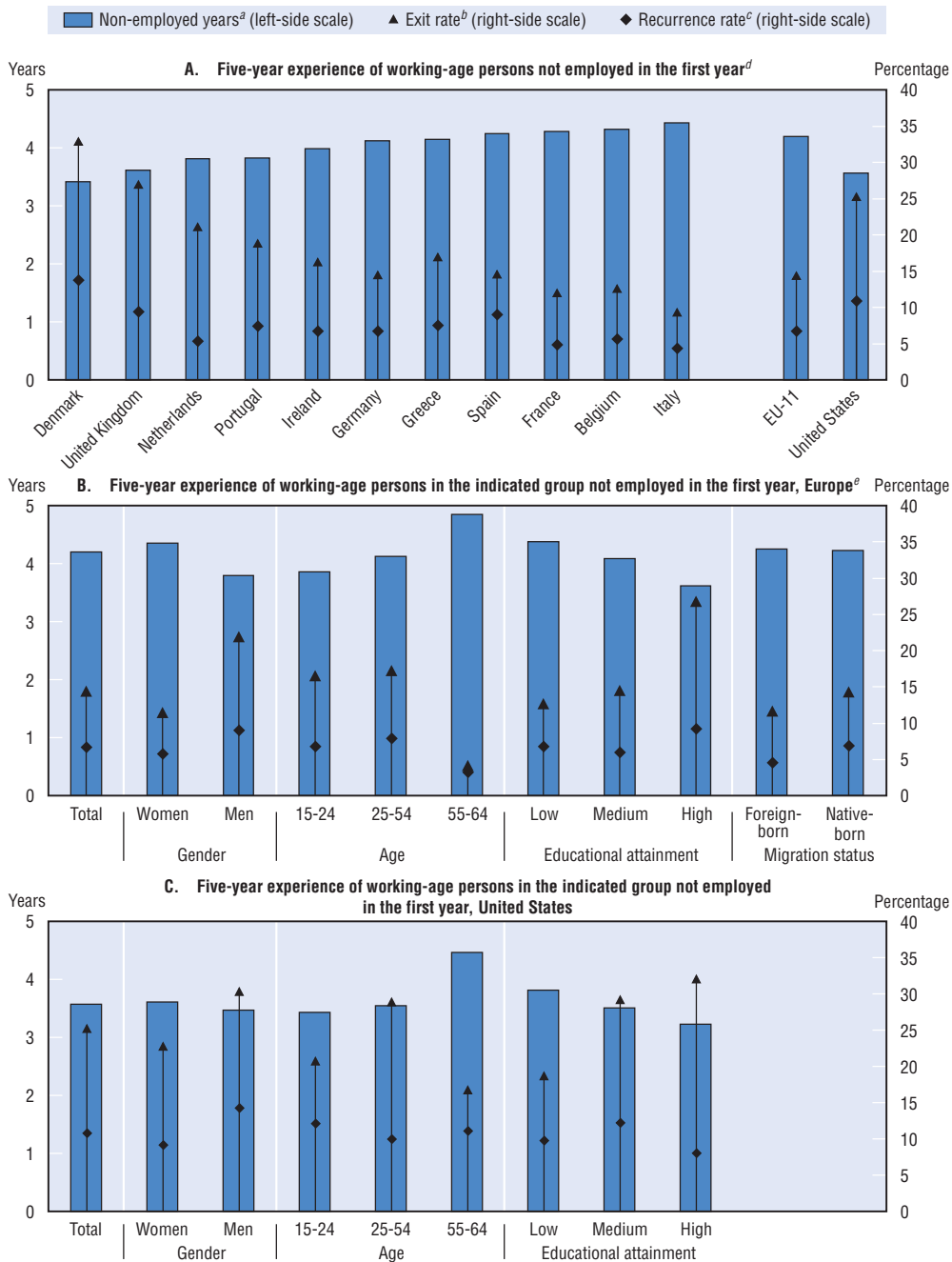
Of particular importance for labour mobilisation policy, the considerable turnover in non-employment co-exists with a strong concentration of non-employment on persons who rarely work.³¹ Chart 2.12 provides data on cumulative time in non-employment over five years, as well as on the rate at which individuals exit and re-enter non-employment. On average for the 11 EU countries, persons non-employed in 1994 were non-employed during 4.2 of the five years from 1994 to 1998. The corresponding figure for the United States is nearly as high, with persons non-employed in 1993 averaging 3.6 years outside of employment during 1993-1997. Time non-employed accumulates strongly for two reasons. First, the flow rate into employment is relatively low for this sample (see note 31). Among persons non-employed in the first of the five years considered, the proportion becoming employed in the following year was 14% in the EU countries and 25% in the United States. A second reason non-employment time accumulates strongly is that many persons finding employment soon experience a repeat spell of non-employment. Cumulative time in non-employment over five years is particularly high for women, older persons of working age and less educated persons. Although these data do not allow a precise diagnosis of the underlying causes, they suggest that many of the persons non-employed in a cross-section are either indisposed to work (or to work steadily) or face significant barriers to finding or keeping jobs, and might be characterised as being in inactivity traps.

B. Low-pay traps and unstable employment

Low pay may represent an important disincentive to participation in the labour market (or to stable participation) for certain under-represented groups. Whether or not that is so, the prevalence of low-pay traps is of considerable interest, as is clarifying which labour-force groups have the greatest difficulty moving up job ladders.³² Consequently, this section analyses the incidence and dynamics of low-paid employment.

Chart 2.12. Time in non-employment accumulates strongly

Five-year dynamics of non-employment in Europe and the United States



Note: EU-11: Population-weighted average for the European countries shown.

a) Average years.

b) Share of 1994 (1993) non-employed persons who were employed in 1995 (1994) in Europe (the United States).

c) Share of 1994 (1993) non-employed persons exiting non-employment in 1995 (1994) but experiencing a repeat spell of non-employment during 1996-1998 (1995-1997) in Europe (in the United States).

d) European countries shown in ascending order of average years of non-employment.

e) Population-weighted averages for the 11 European countries reported in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

The annual, low-pay rate is substantially higher in the United States than in all of the European countries, except Greece, while turnover in low-paid employment in the United States is moderately higher than the average for these EU countries (Chart 2.13).³³ In both Europe and the United States, the relative incidence of low pay is much higher for youths than for older groups, for women than for men and for the least educated than for persons with more education (Chart 2.13, Panels B and C). Immigrants in Europe are significantly more likely to experience low pay at some point than are natives, but also have higher turnover. Turnover in low-paid employment tends to be significantly higher than in non-employment, as can be seen by comparing Charts 2.11 and 2.13. For example, five times as many European workers ever held a low-paid job during 1994-1998 as were always low paid, while the ever non-employed were only about twice as numerous as the always non-employed.³⁴

There is considerable evidence for the existence of low-pay traps, with persons low-paid in the first year (and working all five years) averaging 3.1 years of low-paid employment in Europe and 3.6 years in the United States (Chart 2.14, Panel A). These are somewhat lower than the values for cumulative time in non-employment, due to the exit rate out of low pay into higher pay (36% for both the European average and the United States) being substantially higher than the transition rate from non-employment to employment. However, repeat spells of low-paid employment are common, suggesting that some “escapes” from low pay represent small and transitory fluctuations in earnings, rather than sustainable upward earnings mobility (OECD, 1997). Nonetheless, the overall picture is one of great heterogeneity, and significant upward mobility into higher pay does occur. Over a quarter of low-paid workers in 1994 earned at least 80% of the median wage 4 years later (annex Chart 2.A1.1). This share rises to near 40% for men, youths, workers with a university or other tertiary degree and foreign workers (who show more upward wage mobility than native workers). However, the upward mobility prospects of women, the least educated workers and, especially, older workers (73% of which are still low paid four years later) are less good.

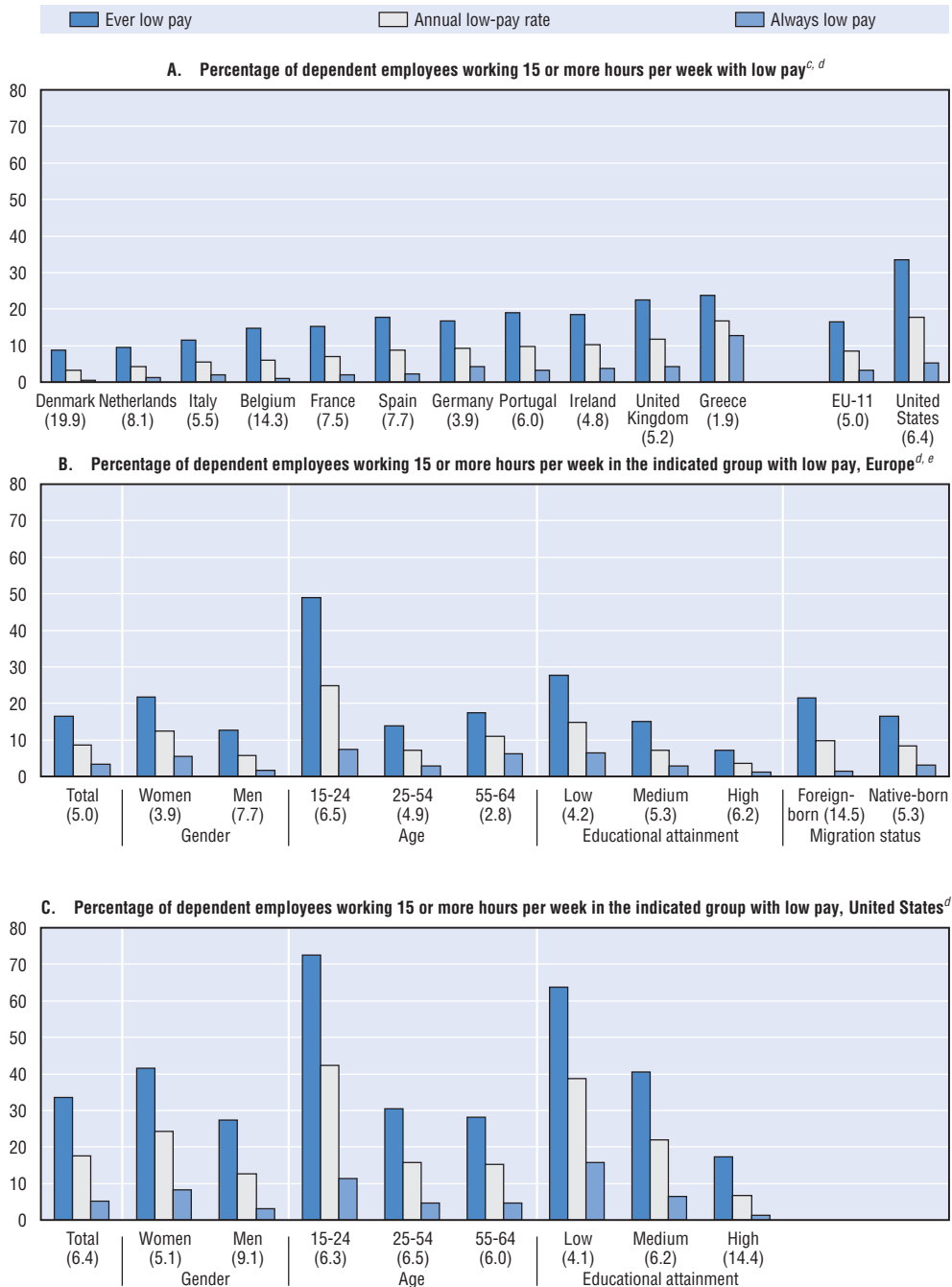
The mobility prospects of low-paid workers look less reassuring when intermittent workers are incorporated into the analysis (Chart 2.15). In both Europe and the United States, workers low paid in the first year averaged nearly four of the next five years in either non-employment or low-paid employment (with non-employment accounting for more than a year of that total). This share was especially high for older workers in Europe (4.6 years) and the least educated workers in the United States (4.2 years). Similarly, more than one in five of European workers low-paid in the first year were not employed in the fifth year. This share rises above 50% for the older group, for whom low pay frequently is a prelude to labour force withdrawal (Chart 2.A1.1). Movements from low-paid employment into non-employment are also relatively frequent for women and immigrants. These results suggest that relatively few workers are persistently trapped in low-paid jobs, but a substantially greater number cycle between low pay and non-employment, with or without transitory spells of higher pay, and for some workers low-paid employment is a prelude to a permanent departure from the labour market.

C. The intertwined risks of non-employment, low pay and poverty

Do non-employment and low-paid employment have an important effect on the risk of poverty? Annual poverty rates for the total working-age population are 9.3% on average

Chart 2.13. Low-pay incidence highest for youths and less educated workers

Alternative incidence measures of low-paid employment^a over five years in Europe and the United States^b



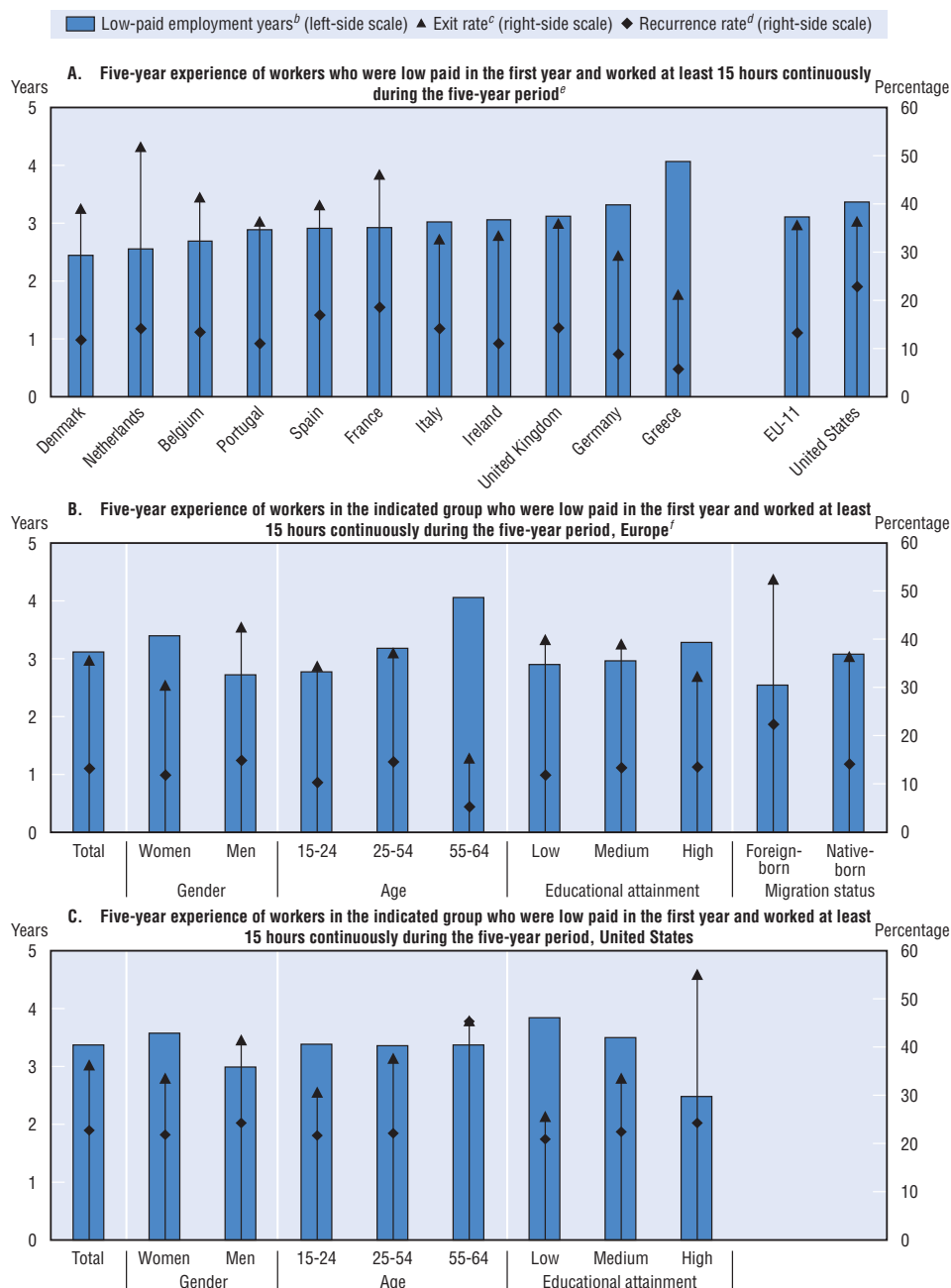
Note: EU-11: Population-weighted average for the 11 European countries shown.

- a) Workers are considered to be in low-paid employment if they work at least 15 hours per week and receive an hourly wage of less than two-thirds the median value in that country and year.
- b) Sample for calculations restricted to persons who were continuously employed as dependent employees working at least 15 hours per week during all five years analysed.
- c) European countries shown in ascending order of single-year rates of low-paid employment.
- d) Values within parenthesis below the country and group labels are the ratio of the ever to the always low paid (an index of turnover).
- e) Population-weighted averages for the 11 European countries reported in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

Chart 2.14. Low pay harder to escape for women, older workers (in Europe) and less educated workers (in the United States)

Five-year dynamics of low-paid employment^d in Europe and in the United States



Note: EU-11: Population-weighted average for the 11 European countries shown.

a) Workers are considered to be in low-paid employment if they work at least 15 hours per week and receive an hourly wage less than two-thirds the median wage in their country of residence.

b) Average years.

c) Share of 1994 (1993) low-paid persons who were high-paid in 1995 (1994) in Europe (in the United States).

d) Share of 1994 (1993) low-paid persons exiting low pay in 1995 (1994) but experiencing a repeat spell of low pay during 1996-1998 (1993-1997) in Europe (in the United States).

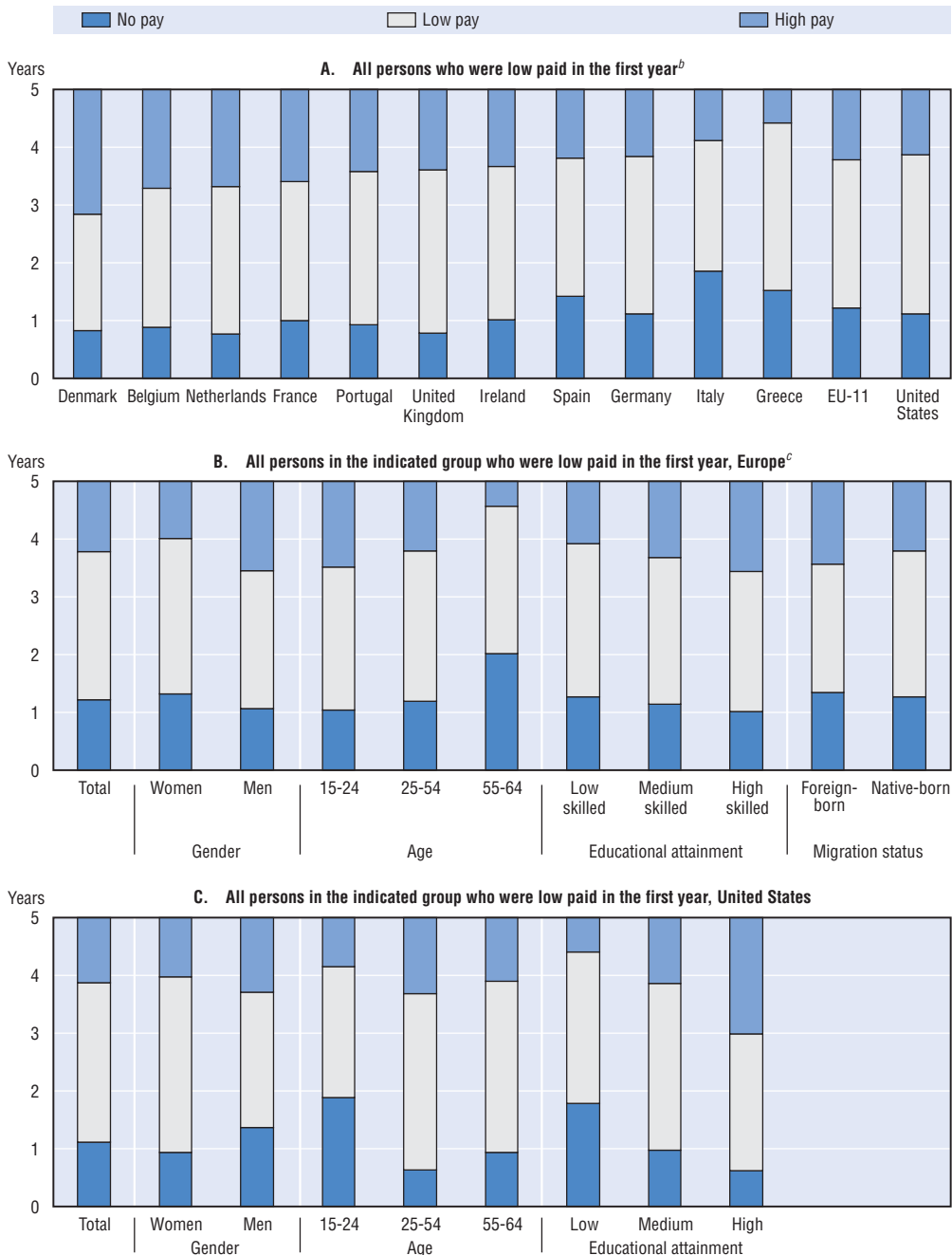
e) European countries shown in ascending order of average years of low-paid employment.

f) Population-weighted averages for the 11 European countries reported in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

Chart 2.15. Low-paid employment often alternates with non-employment

Cumulative years of no pay, low pay and high pay^a over five years, in Europe and the United States



Note: EU-11: Population-weighted average for the 11 European countries shown.

a) Each year, working-age persons are classified across the three earnings statuses as follows: non-employed persons and employed persons working fewer than 15 hours per week are classified as “no pay”; employed persons working at least 15 hours per week and receiving an hourly wage less than two-thirds the median wage in their country of residence are classified as “low pay”; and employed persons working at least 15 hours per week and receiving an hourly wage of at least two-thirds the median wage are classified as “high pay”.

b) European countries shown in ascending order of years spent in either no pay or low pay.

c) Population-weighted averages for the 11 European countries reported in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

for the 11 EU countries and 17% in the United States (Chart 2.16).³⁵ Persistence in poverty is also somewhat higher in the United States than in Europe. Of particular relevance for this chapter's analysis, the risk of poverty is significantly higher for individuals who are non-employed than for their employed counterparts. The one year poverty incidence for an employed individual is 4% in Europe (average value for persons working 10 or more months in the year) and 13% in the United States, while the corresponding rates for jobless individuals are 18 and 36%, respectively. Low-paid employment is also an important risk factor for poverty, even if a strong majority of low-paid workers are not poor (Brandolini *et al.*, 2002). The single-year poverty rates of low-paid workers are 15 and 28% in Europe and the United States, respectively, as compared to much lower rates for workers with higher hourly wages (Chart 2.16).³⁶ Turnover in poverty is lower (and persistence higher) for non-employed and low-paid persons, than for their better paid counterparts.

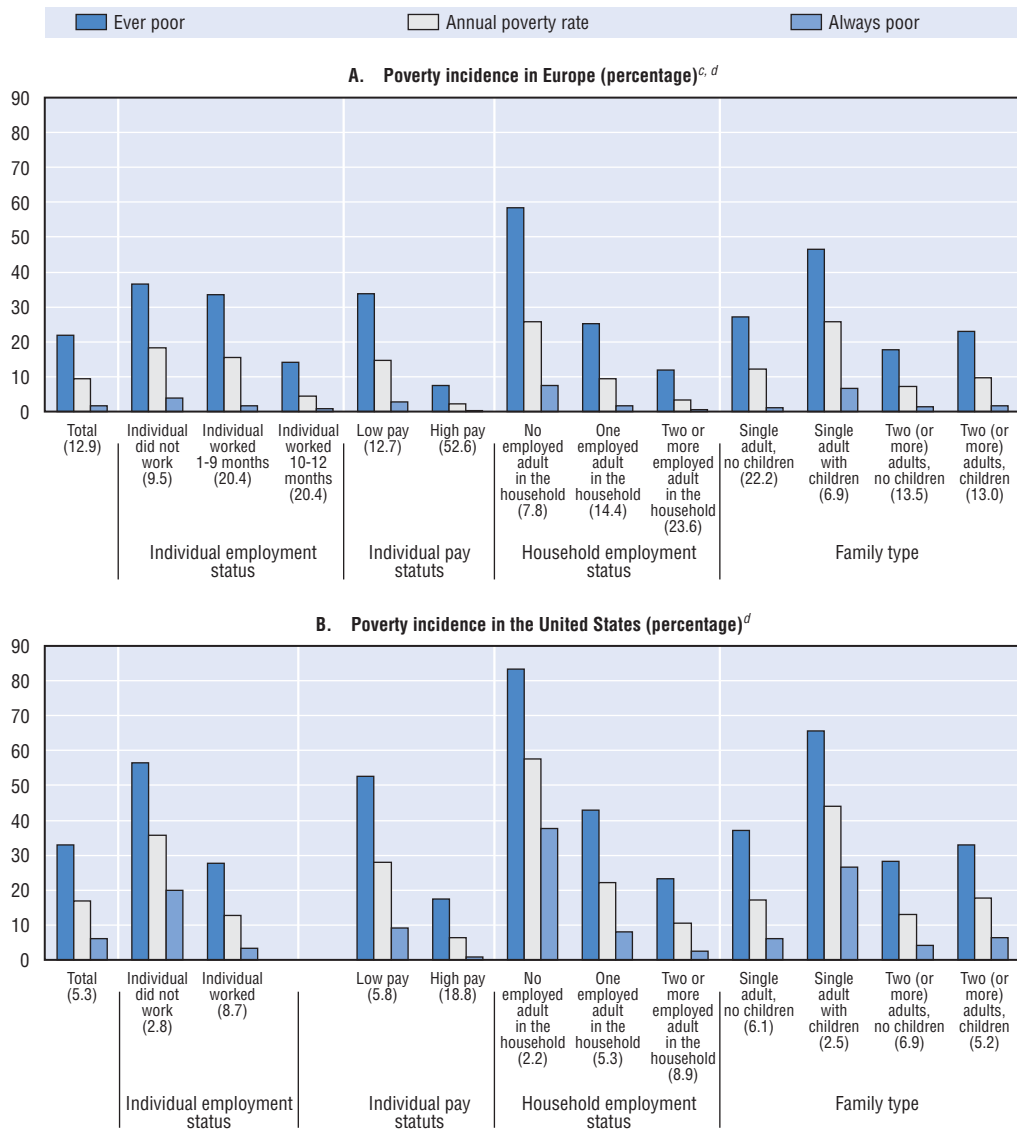
Even though non-employment and low-paid employment are important risk factors for poverty, it is still true that the majority of individuals with no or low earnings are not poor, due to their families having other income sources (*e.g.* the earnings of other workers in the household or social benefits). A confirmation of the importance of other earners in the family is that household joblessness is more strongly associated with poverty than is individual joblessness (Chart 2.16). This is particularly true in the United States, where public transfer payments to jobless families are less often sufficient to raise their incomes above the poverty threshold used here (OECD, 2001).³⁷ Family structure also has a major impact on poverty risk. Most notably, lone parents are at a substantially greater risk of poverty in any given year (26% in Europe and 44% in the United States) than are working-age persons who either live with another adult or are without children. Lone parents also show greater persistence in poverty, representing a significantly higher share of persons always poor during the five year period, than of the ever poor.

The association between individual non-employment and poverty is stronger when chronic joblessness is analysed as a risk factor for chronic poverty. Chart 2.17 shows the relationship between income averaged over five years (which provides a proxy measure of household living standards over the medium-term) and non-employment experience over the same five year period. Working-age persons in Europe who were continuously employed had less than a 3% risk of being "permanent-income poor" (*i.e.* of having a five year average income below 50% of the median equivalent disposable income).³⁸ This risk rises to 11% for persons ever non-employed during 1994-98 and to 13% for persons always non-employed. This association is even stronger in the United States, where permanent-income poverty incidence is 5, 25 and 41%, respectively, for the never, ever and always non-employed. Even in the United States, a majority of non-employed persons have sufficient access to income over a multi-year period to avoid chronic poverty, consistent with much inactivity reflecting a voluntary time-use choice. Nonetheless, stable employment greatly reduces the risk of chronic poverty.

The risk of poverty among non-employed persons of working age in Europe is quite similar for most demographic groups (data not shown). However, immigrants who are non-employed have a risk of being poor which is about double that of the groups with the lowest poverty rates (persons aged 55-64 and medium and high educated persons). Demographic differences are more pronounced in the United States, where family incomes tend to be low for non-employed persons of prime working age or with a low level of education.

Chart 2.16. Poverty risk is high for lone-parent families and jobless households

Alternative incidence measures of working-age poverty^a over five years by employment and pay status, and family structure^b



a) Persons between the ages of 15 and 60 years in 1994 (1993) are considered to be of working-age throughout 1994-1998 (1993-1997) in Europe (the United States). They are considered to be poor if their equivalent disposable income in the previous year is less than 50% of the median value in their country of residence. Single-year poor refers to the poverty rate in the first year.

b) Family structure and employment and pay status measured in the first of the five years. See note a of Chart 2.13 for the definitions of low and high pay.

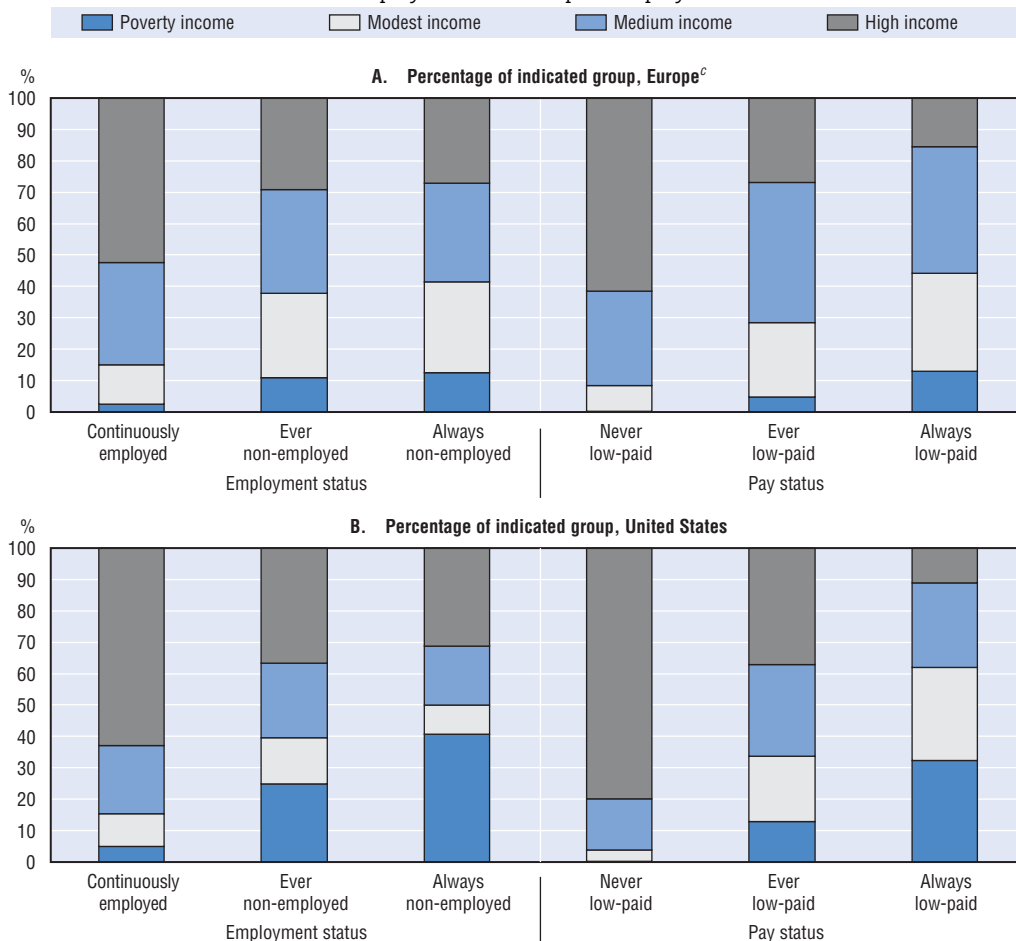
c) Population-weighted averages for the 11 European countries shown in Chart 2.15, Panel A.

d) Values within parenthesis below the country and group labels are the ratio of the ever to the always poor (an index of turnover).

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

Chart 2.17. **Chronic poverty is closely linked to persistence in non-employment and low-paid employment**

Average family income^a over five years for working-age persons according to their experience of non-employment and low-paid employment^b



a) Equivalent disposable household income is classified into four ranges: “poverty” (less than 50% of the median value in the country of residence); “modest” (at least 50% but less than 80% of the national median); “medium” (at least 80% but less than 120% of the national median); “high” (at least 120% of the national median).

b) Workers are considered to be in low-paid employment if they work at least 15 hours per week and receive an hourly wage less than two-thirds of the median wage in their country of residence. When identifying the “never”, “ever” and “always” low-paid groupings, only persons continuously working at least 15 hours in dependent employment during the five-year period analysed are considered.

c) Population-weighted averages for 11 European countries shown in Chart 2.15, Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

As with non-employment, the link between chronic low-paid employment and permanent-income poverty is much stronger than the association between low pay and poverty in a single year (Chart 2.17). European workers who are continuously employed at an hourly wage of at least two-thirds the median value are essentially exempt from poverty, whereas the poverty rate is 5% for ever low-paid workers and 13% for the always low-paid workers. The corresponding values for the United States are nil, 13, and 32%. Among low-paid workers in Europe in 1998, family incomes are lowest for immigrants,

who have only about a 1 in 3 chance of obtaining an income level equal to 80% of the national median in their country of residence. Among American workers, low-paid employment is most strongly associated with low family incomes for prime-age and low-skilled workers.

Conclusions

This chapter highlights a tension that is likely to play a central role in the shaping of employment policies in the coming decade. Labour markets need to be *dynamic* if they are to perform well in the context of rapid demographic and technical changes, and intense international competition. They also need to be *inclusive*, enabling a wide cross-section of the community, and not just those who are the most able-bodied or best educated, to participate in the world of work. One lesson learnt from the experience of the past 30 years is that policies that discourage labour force participation (*e.g.* early retirement or disability schemes that make little effort to support reintegration into work) are ultimately unsustainable and may end up promoting rather than alleviating social exclusion. Accordingly, the increased interest being given to policies intended to foster, rather than to discourage, participation in the labour market is a very welcome development. However, translating a broad intention to mobilise underutilised labour potential into a workable strategy for realising this aspiration is a major challenge. This is especially true since some of the dynamic adjustments occurring in labour markets (*e.g.* rising skill requirements resulting from the application of new technologies and forms of work organisation) may tend to exclude certain work-force groups (*e.g.* less educated, partially disabled or older workers).

The analysis presented in this chapter provides some signposts for mapping out such a policy strategy. A first message is that there appears to be considerable scope to increase employment by mobilising potential labour supply, particularly among women, less educated persons and older persons of working age. Smaller groups, such as lone parents, early school leavers and immigrants, also appear to merit particular attention, since social integration and equity goals could be furthered by increasing their participation. The great diversity of non-employed persons of working age is a second lesson. As exemplified by the policy analysis in this publication, an effective mobilisation strategy needs to confront the specific barriers to fuller participation in employment that affect the different groups. These include the unintended consequences of other policies (*e.g.* labour supply disincentives created by public pensions or income replacement benefits, as is discussed in Chapters 3 and 4). Also needed are policies that encourage innovative employment practices that better accommodate the particular needs or preferences of specific populations groups (*e.g.* work-family reconciliation measures for mothers with caring responsibilities, or improved access to vocational training for less educated and older workers, as discussed in Chapters 3 and 5, respectively).

Policies that encourage jobless individuals to look for work and help them to find entry-level jobs quickly are an essential component of a strategy aimed at raising participation and employment (Chapter 4). However, the longitudinal analysis in this chapter suggests that many of the individuals “activated” by such policies will have difficulty remaining in employment and moving up job ladders. Relatively little is known about how best to foster employment stability and upward career mobility, and further research – including rigorous programme evaluations – are particularly needed in this area. Nonetheless, several tentative lessons can be drawn from what is already known. First,

activation *per se* may improve longer-term opportunities for some, since there is considerable upward mobility from low-paid jobs. Others will remain trapped in low-paid and unstable jobs, but certain policies may be able to reduce the size of this latter group. For example, Chapter 5 identifies a number of policy approaches to broadening access to employer-sponsored training. Finally, the link between low-paid employment and family poverty suggests that in-work benefits have an important role to play in insuring adequate incomes for working families, in addition to their role in reinforcing the economic incentive to work (Chapter 3).

This analysis highlights the potential contribution of a mix of policies that are tailored to the specific situations of diverse population groups. However, further development of such policies should not be allowed to replace continued efforts to enact structural reforms with the aim of improving the *overall* functioning of the labour market. In particular, good framework conditions are required to further lower equilibrium unemployment and to support overall job creation (see Chapter 1 and the references cited there). In the absence of such efforts, policies seeking to facilitate the integration of specific groups into employment are likely to take on a zero-sum character that would do little to enhance overall welfare and much to erode political support for inclusive employment policies.

Notes

1. Unemployment represents a thwarted desire to work that is often associated with economic hardship. It is also unproductive, above the minimum level of frictional unemployment required to match workers to jobs efficiently. By contrast, inactivity reflects time-allocation choices that are for the most part voluntary. Accordingly, a general presumption that paid employment would represent a more productive time use than the non-market activities it would displace would not be justified.
2. While empirical work suggests that minimum wages do not have a significant effect on overall employment rates (OECD, 1998a; Dolado *et al.*, 1996), there is considerable evidence that excessively high minimum wages may negatively affect the availability of employment to low-productivity groups, including youths and low-skill workers (Neumark and Washer, 1999; Kramarz and Philippon, 2001; Laroque and Salanié, 2000). Bertola *et al.* (2002) analyse labour market regulations more broadly and conclude that “labor market institutions meant to improve workers’ income share imply larger disemployment effects for groups whose labour supply is more elastic” (e.g. women, youth, and older workers).
3. The medium or central variant is chosen for countries producing a range of population projections.
4. Inter-cohort shifts in participation behaviour are estimated by assuming that: i) the age-participation profile for all cohorts has the shape implied by the five year changes in participation rates observed for synthetic cohorts between 1995 and 2000; and ii) new cohorts reaching working age after 2000 follow the same profile as the cohort entering in 2000. The labour force projections, including the novel cohort adjustment, are documented in Burniaux *et al.* (2003).
5. Although population ageing can be considered as providing an independent rationale for labour mobilisation policy, it is perhaps best understood as increasing the urgency of the three rationales for enacting policies to foster increased participation that were discussed above. Gruber and Wise (2002) show that the disincentives to labour supply created by public pensions have been a major factor in the declining participation of older persons in employment (first rationale), while Dang *et al.* (2001) show that a continuation of these trends would create enormous fiscal strain (second rationale). The combination of increasing longevity and earlier retirement means that it has become common to concentrate several decades of full-time leisure at the end of the life cycle. Hicks (2002) argues that this is an undesirable time-use pattern that isolates and demoralises many seniors (third rationale).
6. Chapter 5 discusses the specific issue of training access for older workers, while Chapter 3 discusses expanding employment opportunities for older workers more broadly. These issues are also being examined in detail as part of the OECD Thematic Review of policies to improve employment prospects of older workers (OECD, 2003b and c).

7. The immigrant, low-skilled and disabled groups partially overlap with each other and completely overlap with the 4 (non-overlapping) groups defined by age and gender.
8. For example, the opportunity costs of employment could be particularly high for some youths (foregone study) and mothers with young children (foregone parenting activities), and economic returns particularly low for some low-skilled or partially disabled workers.
9. A shift-share analysis of international differences in the aggregate employment rate indicates that differences in population structure explain very little of the cross-country variation for OECD countries, which is dominated by differences in employment rates for population cells defined by gender and age.
10. The choice of the *third* highest value in the OECD as a benchmark represents a pragmatic adjustment for outliers. The very high participation rates sometimes observed for demographic groups in one or two OECD member countries, which have small populations and are geographically compact, probably are not realistic benchmarks for more populous and geographically dispersed countries.
11. Excess unemployment equals zero when the unemployment rate is 5% or less. The 5% ceiling for unemployment rates is somewhat arbitrary and significantly higher than the lowest unemployment rates observed within the OECD area. However, it is intended to approximate the equilibrium unemployment rate that structural reforms might reasonably obtain in the long run in countries where unemployment is currently above that level.
12. The youngest age group was treated differently due to the importance of schooling for this age group and the judgement that international benchmarks based on low educational attainment would not reflect a reasonable policy objective. Before applying the benchmark methodology to persons under the age of 25, the “employed” group was redefined to include all youths either employed or in school. Accordingly, the benchmarking estimates of excess inactivity and excess unemployment for this age group refer exclusively to non-students. This adjustment requires data cross-classifying youths by school enrolment status and labour force status. New Zealand and Korea had to be dropped from the analysis because the necessary data were not available.
13. The benchmark estimates do not imply complete convergence for two reasons. First, it was judged more realistic to set the benchmarks for both inactivity and unemployment somewhat above the minimum values observed among OECD countries (see notes 10 and 11.) A second reason for incomplete convergence is that the international benchmarks for participation rates are defined separately for age-gender cells, causing the implied benchmark values for the aggregate participation rate in different countries to vary with the age and gender structure of the population.
14. Consistent with labour supply responses being greater over longer time horizons, Chapter 4 shows that the full impact of social benefits on labour supply can take several decades to unfold.
15. A further indication that a significant share of inactive persons represent potential labour supply is that approximately two-thirds of them – and substantially higher shares of those aged 25 and older – have previously worked (see annex Table 2.A1.2). Their decision to withdraw from the labour force might be reversible, depending on the reason why they stopped working and how their situation and employment opportunities evolve. Burniaux et al. (2003) use econometric techniques to study how much future labour supply can be increased in OECD labour markets, by implementing specific examples of policies intended to encourage greater participation of women and older workers.
16. The more long-run character of the benchmark estimates of potential labour supply is one factor explaining why they tend to be larger than the self-response estimates. This difference is largest in countries with relatively low employment rates because the self-response estimates of potential labour supply are only modestly higher in countries where the employment-to-population ratio is lower (correlation coefficient of -0.32), whereas this association is much stronger for the benchmark estimates (correlation coefficient of -0.83). As a consequence, the self-response estimates imply much less potential for closing the employment gap between low and high employment rate countries, than the benchmark estimates.
17. Chapter 1 showed that participation rates of older persons increased in a considerable number of OECD countries during the past decade, where labour market conditions improved and pension reforms were introduced. See Chapter 3 for a discussion of policies to encourage later retirement.
18. Some under-represented groups are not treated here despite raising important social concerns and representing a significant share of mobilisable labour resources in certain OECD countries. Examples include ethnic minorities (Altonji and Blank, 1999; Berthoud, 2003) and residents in

- lagging regions (OECD, 2000a). However, these groups overlap with the groups that are analysed (e.g. with the low skilled and immigrants).
19. Chapter 3 discusses different policies and institutional factors, such as the availability of child care, that can help mothers reconcile work with family life.
 20. The gender gap in employment for persons with a tertiary degree averages 13%, whereas it is more than twice as large for women not finishing upper secondary schooling, at 28 percentage points. Even when working, less educated women have relatively poor access to upgrade training (Chapter 5), suggesting that their prospects for career advancement may tend to be limited.
 21. Jobless households containing working-age persons may be at a high risk of economic deprivation and social isolation (OECD, 1998a). These concerns are particularly strong when children are present in the household, whose developmental prospects could be compromised.
 22. Typically, schooling represents a productive investment in skills that will enhance future earnings potential. However, school enrolment sometimes reflects a constrained choice, even a form of disguised unemployment, particularly in the context of depressed labour markets.
 23. Although the proportion of older individuals who are unemployed is rather low, even in high-unemployment countries, unemployment durations tend to be longer for older workers (OECD, 2002a). The high incidence of long-duration unemployment in this age group reflects both the reluctance of employers to hire older job seekers (OECD, 1998a) and a tendency for governments to place a low priority on activating jobless persons receiving unemployment (or other) benefits, who are nearing retirement age (Chapter 4).
 24. Workers aged 50 to 54 are included in these tabulations, because, the withdrawal from the labour force associated with ageing begins before age 55 in many OECD countries. However, most of the analysis in this publication defines older working ages as 55-64 years, since international data are more generally available for that age grouping.
 25. The one exception is Portugal, where low-educated persons of working age have a higher employment rate than their medium-educated counterparts (68 versus 63%), but a far lower employment rate than high-educated persons (90%).
 26. 1994-1998 data from the December 2001 version of the European Community Household Panel (ECHP) users' database are used to analyse five year labour market dynamics in Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain and the United Kingdom, while 1993-1997 data from the Panel Study of Income Dynamics (PSID), as reported in the 1980-2001 Cross National Equivalent File (CNEF), are used for the United States. (These are the most recent five year periods for which data were available at the time the analysis was performed.) Austrian data from the 1997-1998 waves of the ECHP are also reported in Table 2.2. Sample size constraints in the ECHP preclude analysing persons with disabilities, while the limited range of PSID variables included in the CNEF preclude analysing either persons with disabilities or immigrants. OECD, 2001 provides an overview of these data sources (see also European Commission, 2003b; Burkhauser et al., 2001).
 27. Although not presented here, two, three and four year transition matrices showed qualitatively similar patterns of mobility, although there is some tendency for mobility rates to increase as the period of time considered lengthens. Unfortunately, the CNEF data for the United States do not allow analogous transition probabilities to be calculated.
 28. This result also suggests that the desire to work, which is expressed by many non-employed mothers, is not easily realised, perhaps, due to the difficulty of reconciling their role in their families with employment.
 29. The cross-country correlation between the annual rate of non-employment and the ever/always ratio (an index of turnover in joblessness) is -0.78 for the 12 countries analysed. A consequence of this correlation is that country rankings are very similar for the 3 non-employment incidence measures, but international differences are most pronounced for comparisons of the share of the working-age population always non-employed over the five year period (i.e. for the risk of durable non-employment traps).
 30. Correlation coefficients of -0.80 based on data in, respectively, Panels B and C of Chart 2.11.
 31. This apparent paradox is often observed in data on labour market dynamics and is easily resolved. A significant share of persons ever experiencing non-employment over a five year period typically work, but experience a single, brief interruption in their employment history. Consequently, many non-employment spells are short. However, persons who are typically employed represent a much smaller share of all persons non-employed at a specific time, since chronically non-employed

persons are more likely to be outside of employment on any given date. In fact, most persons non-employed in a given year show quite high persistence or experience repeat spells of non-employment. Chronically non-employed persons account for an even larger share of the total time spent in non-employment over a multi-year period. OECD (1996, 1997) explain these relationships in greater detail, in the context of an analysis low-pay dynamics.

32. Workers are considered to be in low-paid employment if they work at least 15 hours per week in dependent employment and receive an hourly wage less than two-thirds of the median wage in their country of residence.
33. Whereas higher single-year incidence of non-employment is associated with lower turnover, no consistent relationship between low-pay incidence and turnover is evident.
34. Since these calculations of low-pay incidence refer to the sample of persons working in all five years, turnover refers exclusively to movements between low- and better-paying jobs. Persons moving between low-paid employment and non-employment are incorporated into the analysis in Chart 2.15 (below).
35. An individual is classified as being poor if their equivalent disposable household income is below 50% of the median value in their country of residence. See OECD (2001) for a discussion of this relative poverty criterion and its use in an extensive analysis of poverty incidence and dynamics.
36. Employment, earnings and poverty status are all measured in the first year. In a more elaborate analysis, OECD (2001) shows that many of the entries into and exits out of poverty that occur in a multi-year period coincide with *changes* in employment, earnings or household structure.
37. As shown in Chart 2.16, the annual poverty rate is 58% for a working-age person in the United States who is a member of a jobless household and 83% of such persons were poor at least once during the five year period. The corresponding values for Europe are lower, but still quite high, at 26 and 58%, respectively.
38. See OECD, (2001), for a justification for using a permanent-income poverty criteria based on averaging income over multiple years.

ANNEX 1

Supplementary Evidence

Tables 2.A1.1–2.A1.2 provide supplementary evidence supporting the analysis of potential labour supply in Section 1 of the main text, while Chart 2.A1.1 provides supplementary evidence supporting the analysis of low-pay dynamics presented in Section 3 of the main text.

Table 2.A1.1. **Inactive persons of working age who would like to work (now or at some time in the future), 1997**

Persons aged 15 to 64 years (percentages)

	Share of inactive persons who would like to work ^a									Share of inactive persons having previously worked, who would like to return to work, by reason why they stopped working			
	All	Women	Men	15-24 years	25-54 years	55-64 years	Low skilled	Medium skilled	High skilled	Retirement	Health problems	End of contract ^b	Family responsibilities
Canada	77.8	76.4	79.8	98.4	87.1	35.6	69.9	77.1	82.2	48.5	38.2	91.0	95.8
Czech Republic	57.4	56.5	59.4	93.8	81.1	27.1	50.0	71.1	86.7	26.4	68.3	80.0	96.2
Denmark	50.5	54.0	44.8	100.0	70.5	15.4	31.0	71.6	67.1	26.6	51.3	60.2	–
France	61.1	71.3	36.4	98.1	86.5	14.6	32.9	66.5	68.9	17.2	–	83.7	63.5
Germany, western Länder	63.0	65.3	57.9	94.3	80.4	23.9	53.0	91.5	80.0	10.5	50.0	85.7	74.0
Germany, eastern Länder	69.3	62.2	80.0	100.0	87.5	38.2	63.8	–	–	26.7	81.3	–	–
Hungary	30.6	31.0	29.8	95.9	43.4	13.8	26.3	45.7	43.1	15.4	15.8	79.9	69.2
Italy	74.0	73.3	76.1	98.3	82.1	45.3	68.9	80.3	81.1	40.8	–	88.2	66.5
Japan	61.0	57.0	73.2	86.7	68.7	27.5	57.6	55.6	72.6	45.8	66.7	–	53.6
Netherlands	55.1	55.7	53.6	96.4	64.0	16.4	52.4	50.0	67.7	1.6	58.7	80.4	62.1
New Zealand	73.7	75.6	67.6	100.0	85.1	46.2	67.4	65.8	80.6	39.3	84.6	88.9	85.1
Norway	72.6	71.4	75.0	95.7	84.5	34.1	62.5	88.9	80.4	53.8	57.1	80.0	82.1
Poland	65.8	61.0	74.4	95.9	76.0	37.7	57.6	74.3	93.1	39.3	70.8	70.4	79.9
Portugal	63.7	67.1	55.3	92.9	75.2	41.1	61.8	96.7	78.4	25.0	52.2	72.4	63.4
Spain	65.5	67.4	60.4	94.6	72.5	32.5	59.8	77.3	84.5	19.5	48.5	78.9	63.4
Sweden	77.5	75.6	79.2	91.7	94.3	20.6	..	..	..	21.1	48.3	96.4	92.8
Switzerland	62.8	64.9	53.7	95.1	77.5	22.0	65.8	60.8	68.8	16.8	45.5	74.7	77.0
United Kingdom	65.6	65.5	65.7	100.0	82.0	20.7	60.0	81.1	70.9	15.7	70.0	88.1	76.6
OECD average^c	64.4	64.3	64.6	94.5	77.3	28.3	55.3	68.7	73.1	29.2	47.4	61.8	66.1
For comparison: European averages^d													
Source ISSP	64.5	65.9	60.6	96.8	79.1	27.7	53.4	72.3	72.1	..	..	..	..
Source EULFS ^e	11.8	11.7	12.2	11.5	18.3	5.4	10.9	14.0	14.0	..	..	..	..

.. Data not available.

– Values not reported because of the small number of observations.

a) Question V66 : “Would you like to have a paid job, now or in the future?”.

b) Includes job displacement, dismissal and end of job contract.

c) Population-weighted average for countries shown with valid data.

d) Population-weighted average calculated for countries with data for both surveys: Denmark, France, Germany, Hungary, Italy, Netherlands, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

e) Among non-active persons who are not seeking employment, share of those who would nevertheless like to have work (now). Data for 2001.

Source: International Social Survey Programme (ISSP), 1997; European Union Labour Force Survey (EULFS), 2001.

Table 2.A1.2. **Inactive persons of working age who have worked previously and the reasons why they stopped working, 1997**

Persons aged 15 to 64 years (percentages)

	Share of inactive persons who have previously worked for one year or more	Reason why they stopped working ^a				
		Retirement	Health problems	End of contract ^b	Family responsibilities	Other
Canada	72.0	32.9	12.1	30.4	20.3	4.3
Czech Republic	84.3	51.5	24.0	8.8	15.2	0.6
Denmark	82.3	37.4	43.4	14.5	3.5	1.2
France	67.8	46.9	7.6	15.6	24.7	5.2
Germany, western Länder	77.0	20.9	14.1	7.3	40.8	16.8
Germany, eastern Länder	65.8	32.0	36.0	20.0	8.0	4.0
Hungary	82.7	35.4	38.9	10.8	9.8	5.2
Italy	44.6	30.2	1.6	12.8	22.0	33.3
Japan	52.5	19.7	17.2	8.2	23.8	31.1
Netherlands	74.2	13.8	20.0	12.0	31.4	22.8
New Zealand	86.3	21.2	9.8	20.5	35.6	12.9
Norway	70.4	10.3	51.6	11.9	22.2	4.0
Poland	67.2	47.1	30.6	8.0	13.8	0.5
Portugal	52.2	21.5	37.6	15.6	22.0	3.2
Spain	58.7	15.4	14.1	26.2	21.9	22.4
Sweden	51.1	33.4	15.0	33.6	16.7	1.2
Switzerland	87.3	17.5	6.0	10.8	37.5	28.2
United Kingdom	85.1	24.7	10.6	20.3	40.3	4.0
United States	76.0	21.4	15.4	19.7	35.9	7.7
OECD averages^c						
Total	68.4	25.7	15.9	16.2	29.8	12.4
Women	69.5	18.7	12.4	15.1	39.0	14.8
Men	64.8	46.4	25.2	19.5	3.6	5.4
15-24	28.0	6.6	1.1	48.1	33.9	10.3
25-54	77.6	8.2	17.6	17.8	41.4	15.0
55-64	84.6	51.6	17.4	7.6	12.7	10.7
Low skilled	66.8	28.9	18.1	15.3	26.2	11.5
Medium skilled	68.0	23.6	14.6	18.1	32.9	10.7
High skilled	64.9	28.5	13.9	16.5	27.5	13.6

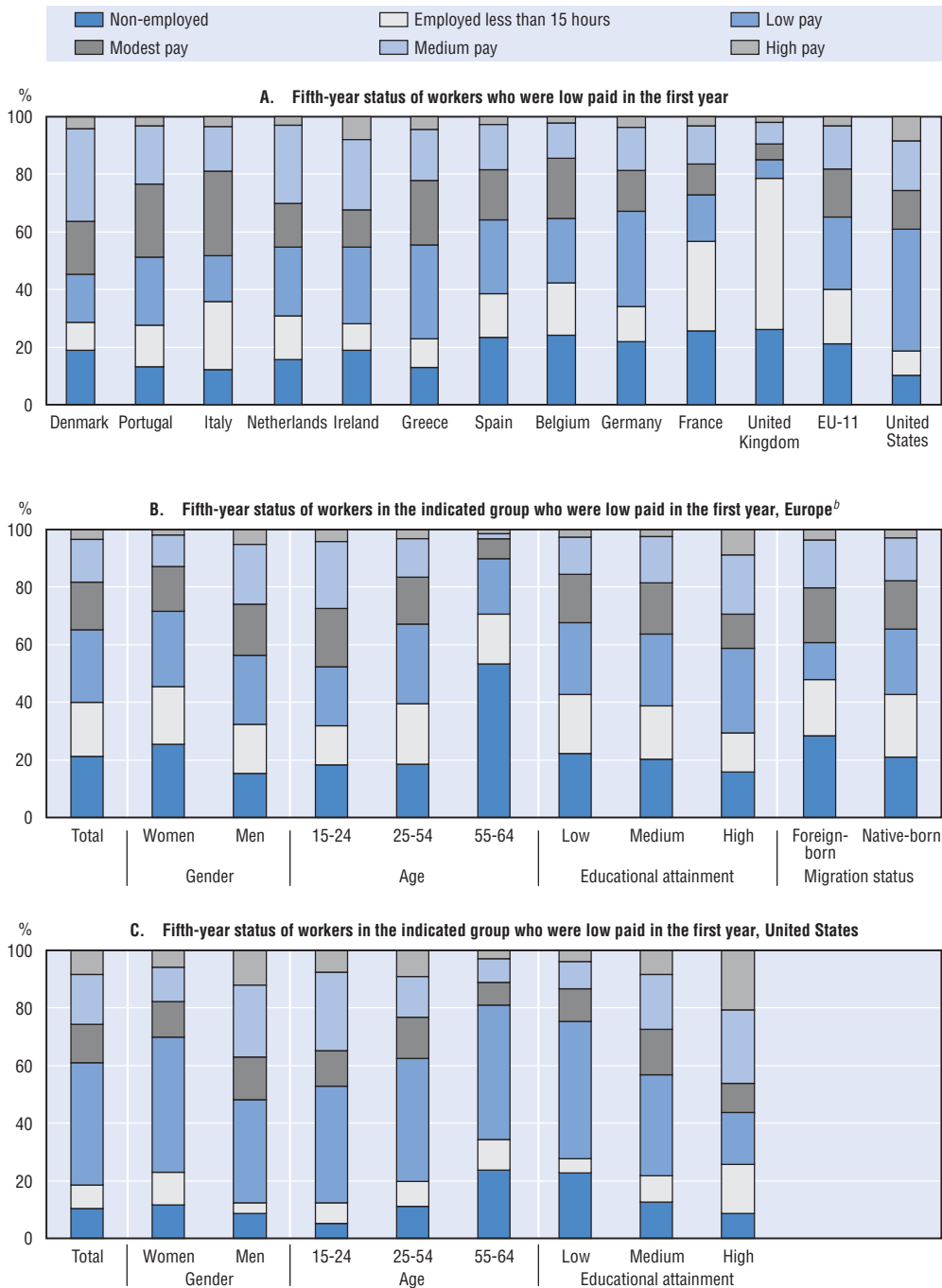
a) Percentage share of inactive persons who have previously worked for one year or more.

b) Includes job displacement, dismissal and end of job contract.

c) Population-weighted averages for countries shown.

Source: International Social Survey Programme (ISSP), 1997.

Chart 2.A1.1. **Four-year earnings mobility of low-paid workers^a in Europe and the United States**



Note: EU-11: Population-weighted average for the 11 European countries shown.

a) Persons working at least 15 hours per week are considered to be low paid if their hourly wage is less than two-thirds the median wage in their country of residence; modestly paid if their wage is at least two-thirds but less than 80% of the median wage; moderately paid if their wage is at least 80% but less than 120% of the median wage; and highly paid if the wage is at least 120% of the median wage.

b) Population-weighted average for the 11 European countries shown in Panel A.

Source: Secretariat calculations based on the European Community Household Panel, waves 1 to 5 (1994-1998) for the European countries and Secretariat calculations based on the PSID from the Cross-National Equivalent Files, 1993-1997 for the United States.

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