Chapter 5

Social Implications of Policies Aimed at Raising Employment

Have efforts to tackle high unemployment along the lines recommended by the 1994 Jobs Strategy, compromised other social goals, even as they helped to raise employment rates? Consistent with such concerns, wage dispersion has tended to increase in countries where unemployment has come down. However, employment gains have an offsetting effect on the distribution of household incomes, since many of the added workers are from lower income households. Consequently, overall income inequality and relative poverty have increased in some of the countries where unemployment has fallen, but decreased in others. Similarly, reductions in unemployment have coincided with increased low-paid and temporary employment in some countries, but the reverse is true in others. What is clear is that a significant share of low-paid and temporary workers find it difficult to climb the job ladder and/or experience frequent spells out of work, even as others successfully move into stable and better paying jobs.

While recognising the existence of a possible trade-off between labour market performance and the distribution of income, the 1994 Jobs Strategy stressed the importance of removing economic disincentives that undermined the effective use of labour resources. An early review of reform experiences suggested that several countries had been reluctant to implement comprehensive changes because of concerns that they could lead to an unacceptable widening of income and wage distributions (OECD, 1997a). Likewise, fears that reforms (notably recommendations to ease employment protection and render wage setting more flexible) could deteriorate job security, working conditions, pay and career prospects for certain groups were identified as important barriers to implementation.

The first part of this chapter evaluates whether the improvement in labour market performance in the 1990s has been accompanied by an increase of inequality and relative poverty. This question is analysed using time series on the distribution of household income that go back to the early 1980s for member countries where such data are available.[1] Building upon the trends discussed in Chapter 2, the second part of this chapter examines whether progress in meeting employment objectives has been associated with a marked deterioration in various dimensions of job quality. It also discusses how the Jobs Strategy agenda could be expanded to take into account job quality concerns.

1. Trends in income inequality and poverty: the link to changes in labour market performance

In general, labour market reforms can affect the dispersion of income in two opposing ways. On the one hand, reforms of institutions and policies that result in higher employment will contribute to reduce income inequality. On the other hand, the purpose of some of these institutions and policies has been to redistribute income to needy households, and certain reforms could undermine their role in channelling resources to the weakest segments of society.

Inequality is multifaceted by nature and alternative measures of inequality and poverty can give different results. It is therefore important to base assessments about changes in income distribution on several measures that mutually reinforce each other rather than on a single measure that is contradicted by other measures. In the rest of this section, inequality and poverty measurements are calculated on the basis of the *household disposable income* (*i.e.* income after taxes and transfers). The results are summarised in synthetic tables grouping countries into those where a majority of indicators agree in identifying trends and those where little changes can be observed or alternative indicators and sources generate conflicting outcomes.[2] The detailed results corresponding to these tables are reported in Burniaux and Padrini (2006).

Before looking at trends, it is worth recalling that the degree of income inequality differs significantly across OECD countries (Figure 5.1, Panel A). For example, as measured by the Gini coefficient, income inequality at the household level was more than twice as

Figure 5.1. **Indicators of income inequality and relative poverty, 2001**[a]

Panel A. **Gini coefficient**

Panel B. **Relative poverty rate**
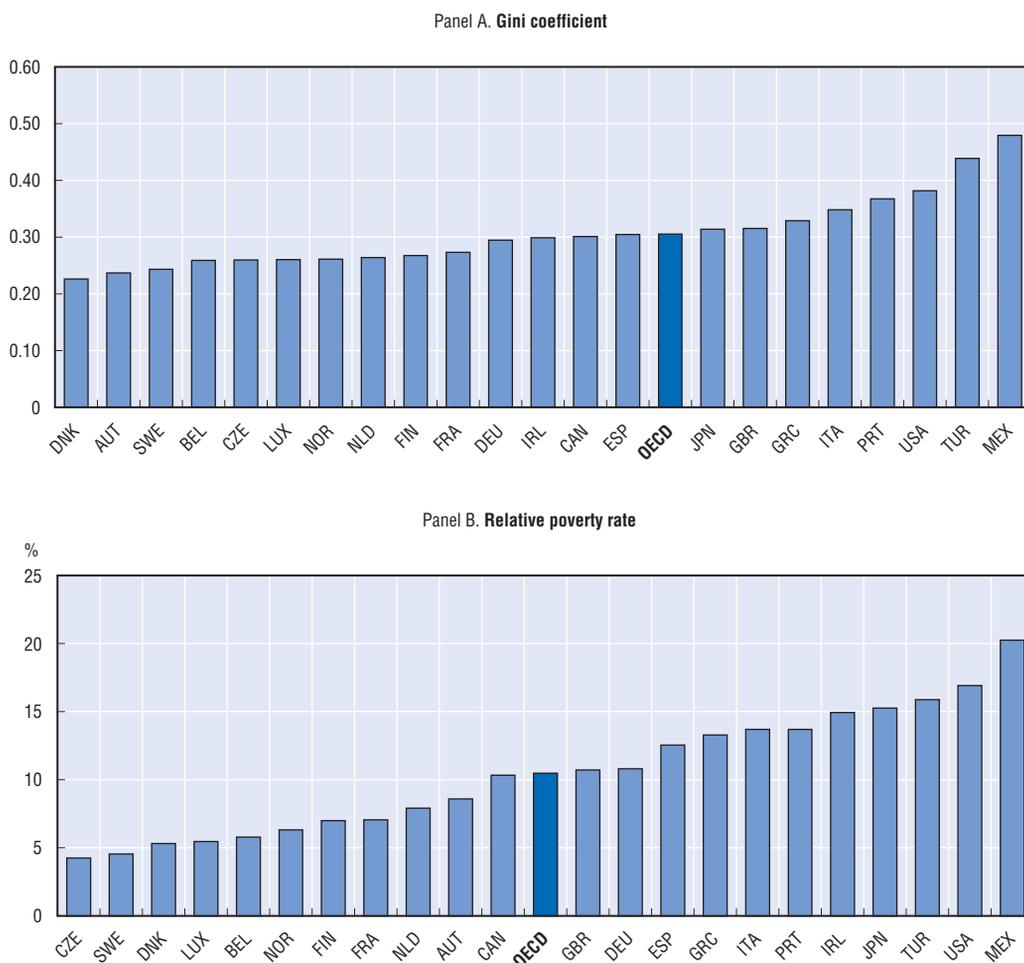
a) 1999 for Australia, 2000 for Canada, France, Japan and Norway, 2002 for the Czech Republic, Germany, Mexico and Turkey.

Source: Förster and Mira d'Ercole (2005).

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high in Turkey and Mexico as in Denmark in 2000. Overall, inequality was lower in the northern European countries and higher in the southern European and English-speaking countries. Similar patterns were observed for relative poverty in 2000, with 17% of the population living under the poverty threshold (set at 50% of the median income) in the United States against 4% in Sweden. These patterns hold across alternative indicators of relative poverty and inequality.

For a number of OECD countries, the trend increase in household income inequality came to a halt or even reversed in the 1990s. Indeed, of the nine countries that experienced increases of inequality in the period before 1993-94, only Japan and the United Kingdom continued to see a widening of the income distribution (see Table 5.1). In a few countries where the income distribution had remained stable or become more compressed before 1993-94, there was a tendency for some widening in income dispersion thereafter. This was particularly the case for most of the Nordic countries and Canada. However, in a majority of countries, the income distribution narrowed or was stable after 1994, either in line or in contrast with previous trends.[3]

Table 5.1. **Trends of unemployment and overall income inequality**

		Period before 1993-94			Period after 1993-94		
		Unemployment rate			Unemployment rate		
		Decline	Almost constant	Increase	Decline	Almost constant	Increase
Overall income inequality	Decline	Canada Denmark		Greece Spain Sweden	France Italy Netherlands Spain	Portugal	Austria Germany
	Almost constant or unclear	Belgium Ireland Portugal		Finland France Luxembourg	Belgium Ireland Norway United States		Greece
	Increase	Netherlands United Kingdom United States	Austria Japan	Australia Germany Italy Norway	Canada Denmark Finland Sweden United Kingdom		Japan Czech Republic Luxembourg

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in overall income inequality is based on two different indicators (Gini coefficient, ratio of average income of 9th to 1st decile) and four different data sets: Förster and Mira d'Ercole (2005), the Luxembourg Income Study (LIS) data set, the European Community Household Panel (ECHP) data set and the Cross National Equivalent Files (CNEF) data set.

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Trends in the incidence of relative poverty were also more mixed after 1994, with the number of countries where relative poverty rates increased being almost equal to those where they declined or remained constant. The decline in relative poverty rates in most of the Nordic countries, Canada, Luxembourg and Spain during the decade prior to mid-1990s reversed during the past decade. By contrast, among the ten countries where relative poverty rates had increased prior to the mid-1990s, poverty rates stabilised or decreased in eight of them and increased further in Ireland and Japan after 1994 (Table 5.2).

Treating poverty as a *relative concept* (*e.g.* defining the poverty threshold as 50% of the median income, as is done here) has important implications for interpreting the results. Most fundamentally, changes in the relative poverty rate provide an indication of trends in the incidence of relative deprivation within a country, but are not informative concerning changes in the number of households with a low *absolute* standard of living.[4] During the periods considered in Table 5.2, real median income (and, hence, the real income level corresponding to the relative poverty threshold) grew in all of the countries considered, with the average annual increases ranging from 0.4% in Canada and Belgium to 3% and more in Portugal, Spain and Ireland (Table 5.3). Thus, the countries where relative poverty increased were characterised by a situation where incomes tended to grow more rapidly in the middle of the income distribution than near the bottom, but incomes and absolute living standards also tended to grow for low income households. Despite its limitations, the relative concept of measuring poverty is used in this report because it provides useful information about an aspect of income inequality that may be of considerable significance. Indeed, the methodological problems related to defining comparable absolute poverty thresholds across countries and adjusting those thresholds over time make it infeasible to conduct a parallel analysis for absolute poverty.[5]

Table 5.2. **Trends of unemployment and relative poverty**

		Period before 1993-94			Period after 1993-94		
		Unemployment rate			Unemployment rate		
		Decline	Almost constant	Increase	Decline	Almost constant	Increase
Relative poverty	Decline	Portugal Canada Denmark		Finland France Greece Luxembourg Spain Sweden	Italy Netherlands Norway	Portugal	Austria Greece
	Almost constant or unclear	Belgium			Belgium France United Kingdom United States		Germany
	Increase	Ireland Netherlands United Kingdom United States	Austria Japan	Australia Germany Italy Norway	Canada Denmark Ireland Finland Spain Sweden		Czech Republic Japan Luxembourg

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in relative poverty is based on two different indicators (proportion of individual with income below 50% and 60% of the median income, respectively) and four different data sets: Förster and Mira d'Ercole (2005), the Luxembourg Income Study (LIS) data set, the European Community Household Panel (ECHP) data set and the Cross National Equivalent Files (CNEF) data set.

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Table 5.3. **Real income growth associated with relative poverty thresholds**

	Period first year to last year	Average annual growth rate (percentage)
Ireland	1987-2000	5.47
Spain	1985-95	3.19
Portugal	1980-2000	2.98
Luxembourg	1986-2001	2.44
Norway	1986-2000	2.08
Finland	1976-2000	1.95
Greece	1974-99	1.78
Czech Republic	1992-2002	1.67
Austria	1983-99	1.49
OECD average		**1.49**
United Kingdom	1975-2000	1.45
Netherlands	1977-2000	1.02
Sweden	1975-2000	0.95
Denmark	1983-2000	0.85
Italy	1984-2000	0.77
Germany	1984-2001	0.71
Japan	1984-2000	0.71
United States	1974-2000	0.61
France	1984-2000	0.54
Belgium	1983-95	0.38
Canada	1975-2000	0.36

Source: Förster and Mira d'Ercole (2005).

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1.1. *Income inequality and changes in unemployment and employment*

A fall in unemployment brought about by some of the structural reforms discussed in Chapter 3 (*e.g.* increased flexibility in wage setting or stricter enforcement of work availability conditions for unemployment benefits) is often considered to be associated with increased wage dispersion. This conjecture is indeed supported by Table 5.4 that shows the relationship between the evolution of unemployment and gross earnings inequality, as measured by the ninth to first decile earnings ratio[6] of full-time, full-year workers. In a majority of countries, the reduction of unemployment after 1993-94 has been accompanied by an increase of gross earnings inequality. A negative relationship also appears during the period before 1993-94.

Table 5.4. **Trends of unemployment and gross earnings inequality across full-time workers**

		Period before 1993-94			Period after 1993-94		
		Unemployment rate			Unemployment rate		
		Decline	Almost constant	Increase	Decline	Almost constant	Increase
Gross earnings inequality	Decline	Korea	Japan	Australia Finland France Germany	Ireland Spain		Japan
	Almost constant or unclear						
	Increase	Denmark Netherlands United Kingdom United States	Austria	Italy New Zealand Sweden	Australia Canada Denmark Finland France Hungary Netherlands New Zealand Norway Sweden United Kingdom United States	Switzerland	Czech Republic Germany Korea Poland

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in gross earnings inequality is based on one indicator (measured by the ratio of the 90th to 10th percentile earnings, full-year, full-time workers).
Source: OECD database on Labour Force Statistics; OECD Earnings database.

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However, employment gains cause an offsetting effect on the distribution of household-level income from wages and salaries, since many of the added workers are from lower income households. In fact, the distribution of *gross labour earnings across all households (including non-working households)*,[7] suggests a tendency for inequality to decrease when unemployment declines (as shown by countries in the shaded diagonal of Table 5.5). This relationship between labour earning inequality across all households and unemployment changes is even more apparent when inequality is measured for the sub-population in the three bottom deciles of the earnings distribution (see Burniaux and Padrini, 2006). However, this may not be a stable pattern, since the decline in gross earning inequality in most countries witnessing a fall of unemployment after 1993-94, contrasts sharply to what happened during the previous period.

The redistributive impact of transfers and taxes refers to the extent to which transfers and tax systems compensate the inequality of the distribution of labour and capital earnings.[8] As Table 5.6 shows, the redistributive power of transfers tended to decrease in the context of

Table 5.5. **Trends of unemployment and labour earnings inequality across all households**

		Period before 1993-94			Period after 1993-94		
		Unemployment rate			Unemployment rate		
		Decline	Almost constant	Increase	Decline	Almost constant	Increase
Inequality	Decline			Spain	Belgium Denmark Finland Ireland Italy Netherlands Spain United Kingdom		Austria
	Almost constant or unclear	Belgium Netherlands		Sweden	France Norway Sweden United States	Portugal	Germany Greece
	Increase	Canada Denmark Ireland Portugal United Kingdom United States	Japan	Australia Finland France Germany Greece Italy Norway Switzerland	Canada	Switzerland	Czech Republic Japan

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in labour earnings inequality is based on one indicator (Gini coefficient calculated over the entire household population, including non-working households with zero earnings) and four different data sets: Förster and Mira d'Ercole (2005), the Luxembourg Income Study (LIS) data set, the European Community Household Panel (ECHP) data set and the Cross National Equivalent Files (CNEF) data set.

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Table 5.6. **Trends of unemployment and transfers' redistributive impact**

		Period before 1993-94			Period after 1993-94		
		Unemployment rate			Unemployment rate		
		Decline	Almost constant	Increase	Decline	Almost constant	Increase
Redistribution	Decline	United Kingdom			Belgium Canada Denmark Finland Ireland Netherlands Norway Spain United Kingdom United States		Austria
	Almost constant or unclear	Netherlands Portugal		France Italy Switzerland	France Sweden	Portugal	Greece
	Increase	Belgium Canada Denmark Ireland United States	Japan	Australia Finland Germany Greece Norway Spain Sweden	Italy	Switzerland	Czech Republic Germany Japan

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in transfers' redistributive impact is based on three different methods of inequality decomposition of the Gini coefficient [additive, Shorrocks' method, subtractive, see Burniaux and Padrini (2006)] and four different data sets: Förster and Mira d'Ercole (2005), the Luxembourg Income Study (LIS) data set, the European Community Household Panel (ECHP) data set and the Cross National Equivalent Files (CNEF) data set.

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falling unemployment. This results from changes in the share of aggregate transfers in total disposable income as well as changes in the relative weights of different types of transfers. When unemployment declines, the share of transfers in total disposable income is reduced in line with falling joblessness while the distribution of transfers becomes more unequal reflecting the increasing weight of transfers other than unemployment benefits that are by nature more unequally distributed, *e.g.* pensions. Here too, the relationship is stronger for the low-income population (see Burniaux and Padrini, 2006).

In contrast, no clear relationship appears after 1993-94 between changes in the redistributive impact of taxes and unemployment changes (Table 5.7). In principle, without cuts in tax and contribution rates, taxes as a proportion of total disposable income should have increased after 1993-94 in line with the share of labour earnings. This has not been the case in a majority of countries that have witnessed reductions of their structural unemployment. By contrast, the redistributive impact of taxes increased in most countries that witnessed a reduction of unemployment during the period before 1994.

Table 5.7. **Trends of unemployment and taxes' redistributive impact**

Redistribution	Period before 1993-94			Period after 1993-94		
	Unemployment rate			Unemployment rate		
	Decline	Almost constant	Increase	Decline	Almost constant	Increase
Decline	Netherlands		Finland Germany Switzerland	Ireland Finland United Kingdom		Japan
Almost constant or unclear			Australia	Canada Denmark France Netherlands Norway Sweden		Austria Germany Greece
Increase	Belgium Canada Denmark Ireland Portugal United Kingdom	United States Japan	France Italy Norway Sweden	Belgium Italy Spain United States	Portugal Switzerland	Czech Republic

Note: For the unemployment rate, "almost constant" refers to changes of 0.5 percentage point or less. The assessment of changes in taxes' redistributive impact is based on three different methods of inequality decomposition of the Gini coefficient [additive, Shorrocks' method, subtractive, see Burniaux and Padrini (2006)] and four different data sets: Förster and Mira d'Ercole (2005), the Luxembourg Income Study (LIS) data set, the European Community Household Panel (ECHP) data set and the Cross National Equivalent Files (CNEF) data set.

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Finally, when looking at disposable income, no general trade-off emerges in Table 5.1 between unemployment and inequality changes. Among countries where unemployment dropped after 1993-94, inequality fell in four of them (France, Italy, the Netherlands and Spain) but increased in three (Canada, Denmark and the United Kingdom). Inequality also increased in Finland and Sweden in the context of falling unemployment, though this may only have been a cyclical development and not a cut in structural unemployment. Excluding these two countries, the hypothesis of a positive link between unemployment and inequality changes (corresponding to the shaded diagonal of Table 5.1) is supported in seven countries during the past decade while a link in the opposite direction appears in five countries. There was also no clear relationship between unemployment and inequality changes during the previous

decade, with inequality increases taking place in three countries where unemployment declined (the Netherlands, the United Kingdom and the United States) and inequality reductions in three countries with rising unemployment (Greece, Spain and Sweden).

Similarly, there was no clear relationship after 1994 between unemployment and poverty trends. However, among the countries where unemployment fell, relative poverty has unambiguously increased in a small majority of them (Canada, Denmark, Ireland and Spain)[9] while the reduction of unemployment has been associated with declining relative poverty in only three countries (Italy, the Netherlands and Norway) (Table 5.2).

As discussed below (and, in more detail, in Burniaux and Padrini, 2006), the reforms advocated by the 1994 Jobs Strategy are likely to affect income distribution and poverty in multiple and sometimes offsetting ways. The employment gains that these reforms generated have been associated with increasing wage inequality. The redistributive impact of these employment gains is ambiguous as it depends on the balance between wages that individuals have earned and the social benefits that they have lost by taking a job. Overall, it seems that the latter effect has more or less offset the former, because it is not possible to identify any systematic relationship between inequality and relative poverty changes and unemployment changes at the aggregate level.

Somewhat stronger relationships appear, however, when looking at broader aspects of labour market performance, such as employment and participation, and to levels instead of changes. The correlation coefficients reported in Table 5.8 suggest that a lower inequality is associated with higher participation and employment rates, while a positive correlation exists with the unemployment rate. Overall, female labour market aggregates show stronger and more significant correlations with aggregate inequality indicators than male ones, highlighting the importance of female work for income redistribution. Female work is also central in preventing relative poverty, as shown by the last column in Table 5.8. Nevertheless, although correlations are in general statistically significant, their sizes remain relatively small, suggesting that other forces are at work, *e.g.* the direct effect of institutions and policies on inequality.

Table 5.8. **Correlations of inequality and relative poverty measures with indicators of labour market performance,[a] 1970-2001**

	Gini index	9th/1st decile ratio	Relative poverty rate
Participation rate – total	−0.29***	−0.19***	−0.18**
Participation rate – men	−0.02	0.10	0.15**
Participation rate – women	−0.33***	−0.26***	−0.26***
Employment rate – total	−0.31***	−0.21***	−0.19***
Employment rate – men	−0.12	0.00	0.04
Employment rate – women	−0.34***	−0.26***	−0.25***
Unemployment rate – total	0.25***	0.18**	0.16**
Unemployment rate – men	0.20***	0.14**	0.12*
Unemployment rate – women	0.27***	0.20***	0.17**
Long term unemployment rate – total	0.21***	0.10	0.08
Long term unemployment rate – men	0.18**	0.06	0.04
Long term unemployment rate – women	0.21***	0.13*	0.11

***, **, * statistically significant at 1%, 5% and 10% levels, respectively.
a) Both inequality and labour market variables have been adjusted for the cycle. Labour market aggregates refer to working-age population (15-64 age group).
Source: Burniaux and Padrini (2006).

Statlink: *http://dx.doi.org/10.1787/440204343723*

1.2. Poverty incidence and persistence over the 1990s: overall and for specific groups

Poverty is multifaceted by nature and headcount measurements may not give an adequate picture of differences in the degree of poverty across countries. Some countries may have a large poverty rate but also a high turnover in and out of poverty, implying short poverty spells. Alternatively, poverty incidence may be lower in other countries on the aggregate, but with a lower probability of exiting poverty permanently. This sub-section reviews the dynamic aspects of relative poverty across OECD countries on the basis of longitudinal data for the period 1993-2000 based on the European Community Household Panel (ECHP) and the Cross National Equivalent Files (CNEF). Lack of data prevents any assessment of changes in poverty dynamics over a sufficiently long time period to assess their links with the evolution of labour market performance.

Indicators of poverty mobility and duration make it possible to draw a typology of poverty across countries with respect, on the one hand, to the degree of mobility out of poverty, and, on the other hand, to whether exiting out of poverty is permanent or transitory. In Table 5.9, relative poverty is considered as permanent or transitory in a given country depending on whether the exit rate out of poverty is below or above the average for the countries for which data are available. In turn, exit out of poverty is permanent or transitory depending on whether the probability of falling back into poverty after exiting is below or above average, respectively. Moreover, the upward mobility out of poverty is characterised as the probability of exiting out of poverty with an income above (a plus sign in Table 5.9) or below (a minus sign) the median income.

Table 5.9. **Typology of relative poverty dynamics across OECD countries**

		Panel A. **Countries with above-average relative poverty levels**		Panel B. **Countries with below-average relative poverty levels**	
		Exit from relative poverty		Exit from relative poverty	
		Transitory[a]	Permanent[a]	Transitory[a]	Permanent[a]
Relative poverty	Transitory[b]	Italy + Spain +		Luxembourg –	Austria – Belgium – Denmark – France + Germany – Netherlands +
	Permanent[b]	Greece – Ireland + United States +	Portugal + United Kingdom –	Finland –	

a) As measured by above-average and below-average probabilities of re-entering into relative poverty after exit.
b) As measured by above-average and below-average probabilities of exiting relative poverty.
+: Refers to an above-average probability of income above the median after exiting relative poverty.
–: Refers to a below-average probability of income above the median after exiting relative poverty.
*Source:* Burniaux and Padrini (2006). Statlink: *http://dx.doi.org/10.1787/347577065407*

In a majority of above-average-poverty countries (Table 5.9, Panel A), relative poverty tends to be a permanent phenomenon with durations of poverty spells above average and exit from poverty transitory. Exceptions are Spain and Italy with higher probabilities of exit and poverty spell durations around average despite a higher poverty incidence. However, in those countries where poverty can be considered as a transitory phenomenon, exit from poverty is also temporary (with an above-average probability of falling back into poverty). In only two high-poverty countries is exit of poverty likely to be permanent (Portugal and

the United Kingdom).[10] It is striking that a majority of high-poverty countries exhibit a relatively high upward income mobility. In contrast, in low-poverty countries (Table 5.9, Panel B), relative poverty is a transitory phenomenon, exit from poverty is permanent but those who exit poverty end up with relatively low income, possibly reflecting lower incentives to move up the income ladder in relatively more egalitarian countries. Finland emerges as an exception in this typology with low but permanent poverty.

The heterogeneous nature of relative poverty is further illustrated by looking to the individual and household characteristics of the poor. Considering age groups (Figure 5.2), children and old-age pensioners (aged above 65) face a higher risk of poverty incidence (as measured by the at-least-once poverty rate) and, even more, persistence (as measured by the long-run poverty rate)[11] than the whole population, both in Europe and the United States. Both poverty incidence and persistence decline substantially during the working age and start rising again with retirement, noticeably earlier in Europe, especially as concerns long-run poverty, than in the United States. Poverty incidence, but not persistence, increases also at age 15-24 during the transition from school to work.

Figure 5.2. **Relative poverty risk profile by age group, 1994-2001**
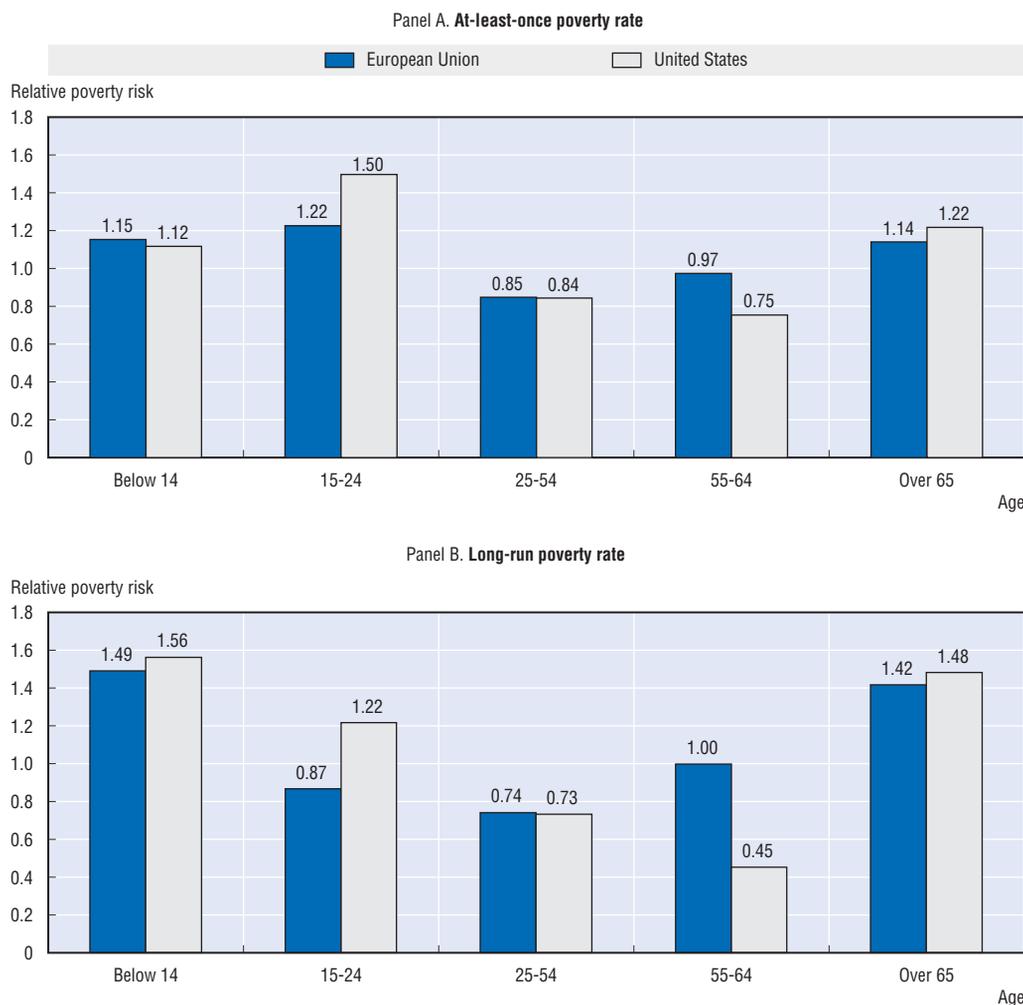
Panel A. **At-least-once poverty rate**

Panel B. **Long-run poverty rate**

Source: OECD calculations based on the European Community Household Panel (ECHP), waves 1 to 8, for the European countries; and based on the Panel Study of Income Dynamics (PSID), for the United States.

Statlink: *http://dx.doi.org/10.1787/467008004042*

In most countries, relative poverty incidence and persistence is higher for lone parents – especially women with children – and less educated individuals. Individuals in households with no working members exhibit a significantly higher risk of poverty incidence and, especially, persistence (Figure 5.3). The presence of occasional or part-time workers is in general not enough to distinctly reduce poverty risk. Individuals in households with one full-time worker face average probabilities of poverty incidence and lower-than-average risk of poverty persistence. In several countries (Italy, Portugal, France and the United States), one full-time worker does not suffice to prevent above-average risks of poverty incidence (and persistence in the case of Italy and Portugal). Only the presence of a second earner in the family reduces substantially the likelihood of being poor in all countries. These results confirm the finding in OECD (2000), Council of European Union (2004) and Valletta (2004) showing that work status is an important determinant of poverty in OECD countries.

Figure 5.3. **Relative poverty risks by working status, 1994-2001**
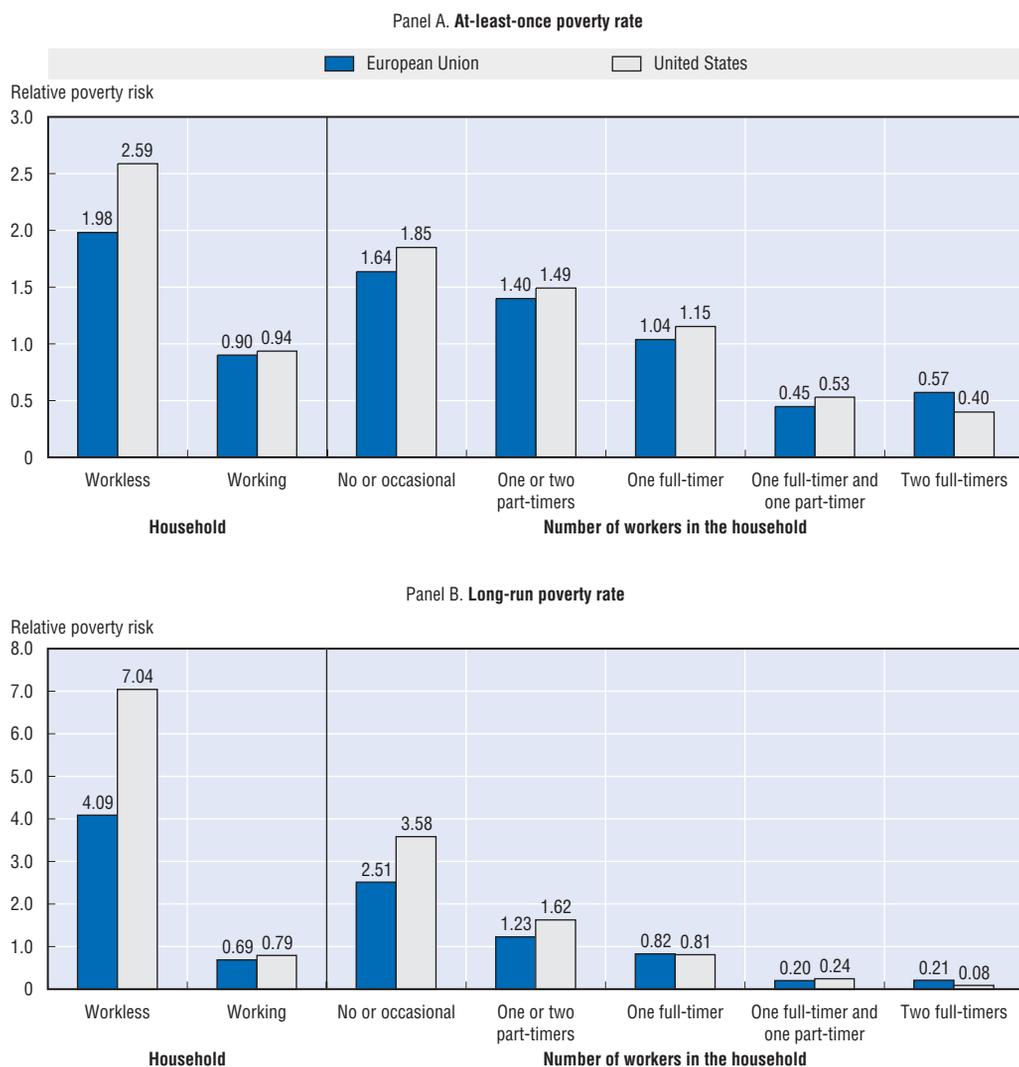
Panel A. **At-least-once poverty rate**

Panel B. **Long-run poverty rate**

Source: OECD calculations based on the European Community Household Panel (ECHP), waves 1 to 8, for the European countries; and based on the Panel Study of Income Dynamics (PSID), for the United States.

Statlink: *http://dx.doi.org/10.1787/436356112021*

However, the persistence of cross-country differences in poverty levels, and the fact that these are not systematically related to differences in employment rates, also suggests that other factors are key in determining income patterns.

1.3. *Impact of labour market institutions on household income inequality and poverty*

Analysing the impact of labour market institutions and policies on inequality and relative poverty in an econometric framework represents a relatively new line of research. The effect of institutions on relative wages has been relatively well analysed (for instance, Koeniger *et al.*, 2004). For instance, stronger union power tends to compress wage distribution, which contributes to reduce income inequality.[12] But there are channels other than wages through which institutions affect inequality and poverty.

Many redistributive policies imply the payment of benefits, such as unemployment benefits and other welfare benefits paid to the inactive. These policies tend to reduce disposable income inequality and poverty. Judging the impact of these policies on inequality and poverty requires to compare the level of the benefits that individuals perceived with the wages that they could get in the absence of such benefits and that, in turn, is related to the quality of the jobs that could be created would these benefits be lower. Finally, some reforms, by increasing employment, are likely to generate additional budgetary savings that may give rise to further tax reductions or benefit increases, the effect of which on inequality and poverty is difficult to identify *a priori*. Therefore, the impact of labour market institutions on inequality and poverty is *a priori* ambiguous and should be better analysed at a disaggregated level – policy by policy – rather than at the macroeconomic level.

However, a number of recent empirical cross-country studies have quantified in a macro-econometric framework the impact of institutions and policies on household income inequality, showing, for instance, that government spending (Galli and van der Hoeven, 2001) and union density (Alderson and Nielsen, 2002) contribute to reduce household income inequality. But the theoretically ambiguous nature of these relationships as well as the high possibility of omitted variables – such like the influence of increasing women participation – and the lack of good quality data make these assessments somewhat tentative. The multivariate analysis discussed in the Burniaux and Padrini (2006) finds little robust evidence of any relationship between labour market institutions, on one hand, and household income inequality and poverty, on the other.

1.4. *Conclusion*

The main finding of this section is that there is no evidence that countries that have succeeded in lowering unemployment over the past decade have systematically been confronted with increasing inequality and relative poverty. Some have seen an increase in inequality but not others. Nor is there any evidence that stable or rising unemployment has gone hand in hand with stable or declining income inequality and relative poverty. A more robust relationship can be observed between unemployment reductions and increasing wage dispersion. But, when looking at the labour income of all households, this effect has been offset to a greater or lesser extent by the redistributive impact of employment gains.

2. Implications for job stability and career paths

The 1994 Jobs Strategy focused mainly on how to reduce barriers to get into a job. The evolution of wages and working conditions of individuals, once in jobs, was not comprehensively assessed; the analyses dealt almost exclusively with the role of policies to promote innovation and entrepreneurship, and to upgrade workers' skills, in supporting wage increases.

Recently, however, concern has been expressed that efforts to raise employment may have come at the expenses of wages and working conditions of workers – thereby leading to a trade-off between employment and job quality objectives (European Commission, 2003). This section looks at whether such a trade-off exists. More fundamentally, the issue arises as to whether certain workers may be trapped in precarious forms of employment or low-paid jobs, thus facing a high risk of moving back to non-employment. The section also examines evidence for such traps and related policy implications.

2.1. Temporary jobs: evidence and policy implications

Temporary employment has grown in a considerable number of countries in the past two decades (Chapter 2) and this expansion has raised concerns that temporary jobs may be an additional source of insecurity and precariousness for workers. To a certain extent, the growth in temporary jobs reflects the strictness of the employment protection legislation (EPL) on regular contracts, and for instance in the United States, where EPL is low, the distinction between temporary and permanent contracts is not very relevant. Hence, a relatively low share of temporary jobs can coincide with a relatively high job rotation, as for example in Ireland and the United Kingdom.[13] Temporary jobs may also have beneficial effects. First, by increasing employment flexibility, they are probably raising employment levels. There is also some evidence that temporary employment (in particular through temporary agencies) improves the matching of job seekers to job vacancies, thus contributing to a reduction in frictional unemployment. Second, temporary jobs may offer a foothold in the labour market and serve as a first step towards permanent positions.

However, temporary jobs could also trap certain workers in situations of employment instability and earnings insecurity, as suggested by the fact that temporary jobs are most often not a voluntary choice. As evidenced in OECD (2002, Chapter 3), temporary jobs tend to provide less favourable conditions than permanent ones. Controlling for differences in individual and job characteristics, the wage penalty for temporary workers is found to be significant, ranging from 6% in Denmark to 24% in the Netherlands, and averaging about 15% in a number of EU countries. Access to non-wage benefits, which represent an (increasingly) important part of job quality (Box 5.1), also tends to be lower than for workers under permanent contracts. This is particularly the case in countries where fringe benefits are not provided by employers on a universal basis, such as Australia, Canada and the United States. In most other countries, temporary workers are in principle eligible for the same benefits as permanent workers, but access is sometimes *de facto* limited by eligibility criteria such as minimum contribution periods. In most countries, job stability also tends to be lower than for workers on permanent contracts.

No clear link between changes in the incidence of temporary work and in the volume of employment

The incidence of temporary work varies considerably across countries, as has its recent evolution (OECD, 2002, Chapter 3). In general, there seems to be no systematic link between the

Box 5.1. **Non-wage benefits: an important dimension
of job quality contributing to traps**

Besides pay and job stability, non-wage benefits – in particular the extent to which workers are covered by health insurance and pension plans – represent an important dimension of job quality. The role of non-wage benefits is becoming increasingly important in view of the efforts to control public spending on social security, health and pensions. Thus, disparities in access to complementary schemes, which are often linked to employment, may represent an important new source of disparity in job quality that will require attention from policy makers.

In addition to the United States, where the employer is the main source for health insurance, employers' role in offering coverage to complement public insurance is large and/or has been rising recently in Canada, France, Ireland, Portugal, Sweden and the United Kingdom (OECD, 2004a).[1] Workers on non-standard forms of employment are less often covered by employer-sponsored health insurance than are "core", higher-paid workers, as is illustrated by the Canadian and US cases (OECD, 2006a, Figure W.5.1). Eligibility conditions such as working a minimum number of hours per week, waiting a certain period of time after hiring or being a permanent worker often exclude part-time and temporary workers from employer-sponsored health coverage. Low-educated and low-wage workers, also suffer from significantly lower coverage rates. In fact, Farber and Levy (1998) find that the gap between "core" and "peripheral" jobs has widened in the United States since 1980, and coverage rates of low-educated and low-wage workers have continued to fall between 1997 and 2002 despite the overall economic rebound (EBRI, 2005).

Employer-sponsored pension plans (or occupational pensions) have become an increasingly important part of national pension systems. This is especially the case in countries where the first pillar of the pension system provides a relatively low income replacement.[2] In Denmark, France, the Netherlands and Sweden, occupational pension systems have a long history and were developed through collective agreements, and most workers are covered by one of these plans.[3] In the other countries, schemes were most often set-up on a voluntary basis by individual employers, and coverage rates are around half of the workforce in Canada, Germany, Norway and the United Kingdom, and between a third and half of the workforce in Belgium, Ireland and the United States. In Canada and the United States, coverage rates have tended to decline since the 1980s.[4]

In countries where pension schemes are individual in nature (*i.e.* not obtained through the employer), patterns of disparities in coverage rate across various groups of workers are likely to be very similar to those found in the case of health insurance. Low-paid workers typically invest less, if at all, in individual plans than is the case with their high-paid counterparts. This is why coverage rates are low in countries like Canada and the United States (see OECD, 2006a, Figure W.5.1). In these two countries, eligibility conditions also disadvantage part-time and temporary workers, as well as low-educated workers.

1. In other countries such as Australia, Austria, Denmark, Germany, Korea, eastern European countries and Switzerland, the individual private insurance market provides the main source of complementary insurance. Employer-sponsored health insurance has a number of advantages for the workers over individual health insurance. Employers generally have greater bargaining power over insurers, so that they are able to negotiate lower premiums and ensure better coverage (*i.e.* lower deductibles and exclusions). In a number of countries, employers also pay part or all of the premium.
2. The relatively low coverage of employer-sponsored pension plans in Austria, Finland, Greece, Italy and Spain is probably explained by the high replacement rates characterising the mandatory public schemes in these countries (see OECD, 2006a, Table W.5.1).
3. Coverage is 100% in France as participation is mandatory.
4. In Canada, coverage declined from 47% in 1981 to 41% in 2000 (Munnel *et al.*, 2004). In the United States, it dropped from 41 to 35 for workers in the private sector between 1979 and 1988, rebounded to 42 in 1999 and dropped again to 39 in 2002 (EBRI, 2005).

changes in temporary work incidence and the changes in unemployment or employment rates experienced over the past decade (Figure 5.4). Ireland is the main exception, where an important reduction in unemployment was associated with a significant cut in the incidence of temporary jobs.[14]

Figure 5.4. **Changes in the incidence of temporary employment and unemployment/employment rates, 1994-2004**[a]

Panel A. **Unemployment rate**

Panel B. **Employment rate**
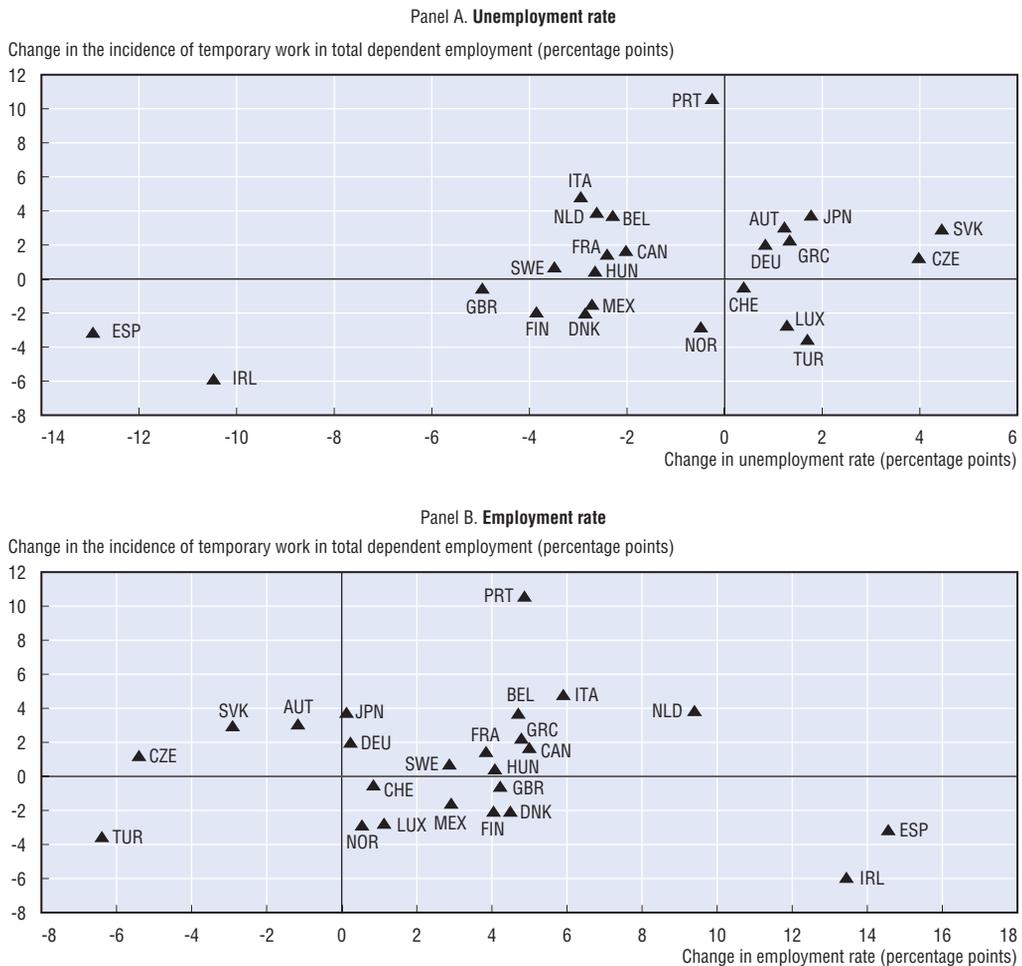
a) 1995-2004 for Austria and Mexico; 1996-2004 for Norway; 1997-2004 for Canada, Hungary and Sweden; 1994-2003 for Germany.

Source: OECD database on Temporary Employment; OECD database on Labour Force Statistics.

Statlink: http://dx.doi.org/10.1787/682283382478

A relatively large proportion of workers on temporary jobs risk losing their job

Overall, a considerable share of temporary workers moves into permanent employment (OECD, 2006a, Figure W.5.2).[15] Mobility levels and patterns vary considerably across countries, though. While more than half of temporary employees in 1998 were in permanent jobs one year later in Austria and the United Kingdom, less than a quarter of temporary employees managed the same in France and Portugal. The picture is somewhat different when looking at their situation after three years: Belgium and the Netherlands become the best performers, with 70% of temporary employees in 1998 in a permanent job in 2001, against less than 40% in Greece.

Figure 5.5. **One-year transition rates to non-employment of temporary and permanent workers, 1998-2001 averages**
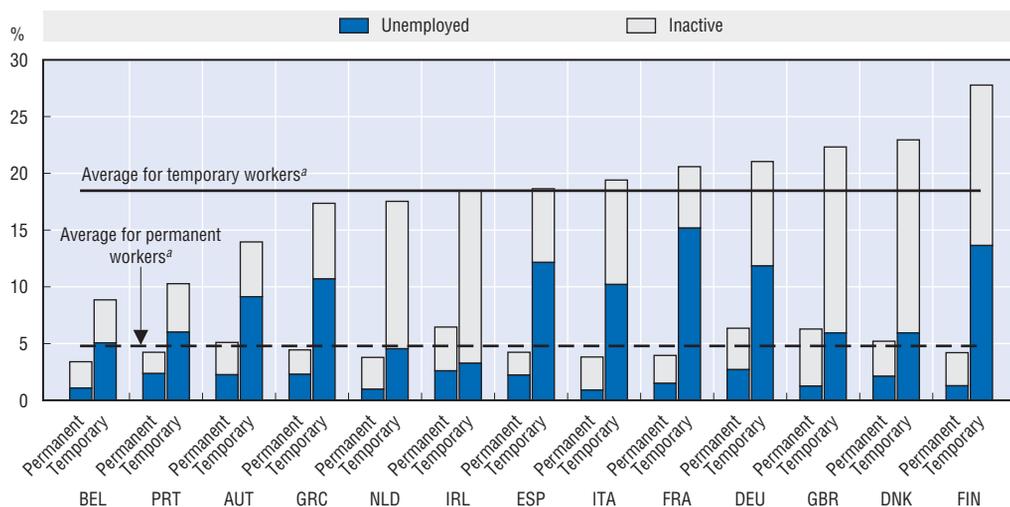
a) Unweighted average transition rates out of employment for permanent and temporary workers, respectively.
Source: OECD calculations based on the European Community Household Panel (ECHP), waves 5 to 8.
Statlink: *http://dx.doi.org/10.1787/688665511428*

Not all mobility out of temporary employment is into permanent employment, however. A number of workers move instead to unemployment or inactivity. In fact, in all countries for which data exist, there is evidence that workers on temporary jobs are much more likely to move to non-employment than their permanent counterparts (Figure 5.5). This is also the case when comparing temporary workers to permanent workers with short tenure, *i.e.* inferior to one year.[16] However, countries differ in the way in which temporary workers move out of employment: while the majority of temporary workers who were not employed had moved into unemployment in most countries, in particular Finland, France, Germany, Greece and Spain, transitions from temporary employment to inactivity predominated in Denmark, Ireland and the United Kingdom (a trend which has become more pronounced over the years).

Workers trapped in temporary/non-employment cycles represent as much as 11% of total employment in Spain, 8% in Finland, 6% in France and around 5% in Greece and Portugal.[17]

In terms of age-groups, upward mobility is generally lower for prime-age workers than for youth, who tend to have a higher probability to get a permanent job and a lower probability to move to non-employment.[18] In addition, mobility into permanent jobs tends to be lower for low-educated persons than for medium- and high-educated persons, and the difference is particularly acute in the Southern European countries.[19] The picture is even more clear-cut when looking at mobility from temporary jobs to non-employment, since it is always higher for low-educated workers than for high-educated ones.

Policy implications

In sum, apart from being a social and political concern in some countries, the existence of such temporary-work traps raises a number of more narrow economic concerns. First, evidence shows that workers on such jobs often move into non-employment – and policy makers thus face the challenge of re-activating them, which is especially difficult for those temporary workers who move to inactivity (see Section 2.4 of Chapter 3). Second, an excessively high job rotation is likely to lead to losses of human capital and productivity

(OECD, 2004a, Chapter 2). Finally, in some countries, unemployment benefits provided to workers at the end of a temporary contract are likely to represent a disproportionately high share of total unemployment benefit expenditure, since temporary workers are much more likely to move to non-employment than permanent ones (Figure 5.5), including those with short tenure. This is also suggested by the positive correlation between involuntary job loss rates and the share of temporary employment in dependent employment (Figure 5.6).

Figure 5.6. **Temporary employment and the job loss rate**

Job loss rate, annual average 2002-2004[a]
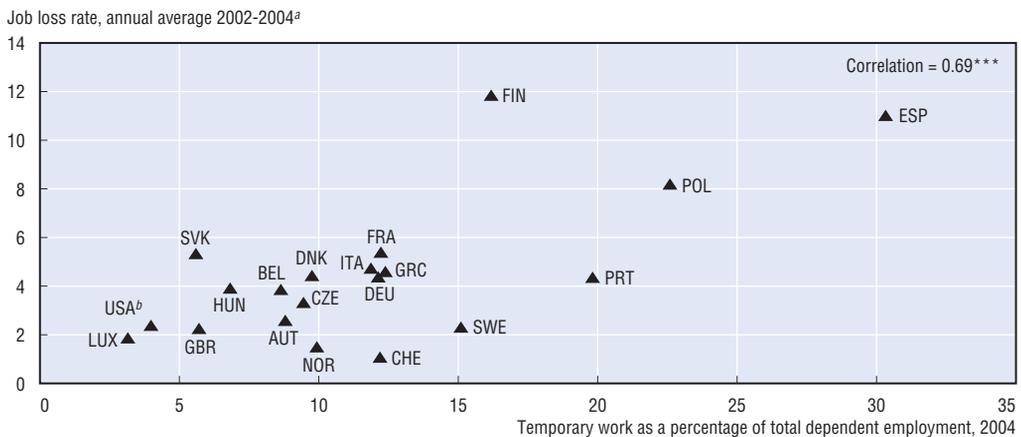
*** statistically significant at 1% level.

a) The job loss rate is calculated as the number of persons currently non-employed who left their job during the previous year for involuntary reasons (termination of fixed-term contract or job terminated at the initiative of the employer) divided by total dependent employment.

b) Data for job losses refer to 2003, data for temporary work refer to 2001.

Source: OECD database on Labour Force Statistics; unpublished tabulations from the European Union Labour Force Survey (EULFS), for the European countries; and OECD calculations based on the Current Population Survey (CPS), January, Displaced workers, employee tenure and occupational mobility Supplement file, for the United States.

Statlink: *http://dx.doi.org/10.1787/276023225667*

Various policy options can be considered to address these traps. Strong development of temporary jobs has generally been a response to partial EPL reforms (*i.e.* liberalisation of the rules governing fixed-term contracts or temporary placement agencies, while retaining relatively strict job protection for regular workers). Hence, one option may be to relax EPL on regular employment while at the same time tightening regulation of temporary work to prevent abuse and better protect temporary workers. Secondly, training is also a way to facilitate the move to permanent jobs (see Section 4 of Chapter 3). Training systems may indeed have to be adapted to the fact that there are many temporary workers, possibly by targeting certain types of training on individuals – rather than firms. Finally, encouraging employers to internalise part of the cost of temporary contracts in terms of benefit spending could also be an option. This could be done by implementing an experience-rating system that links employers' unemployment contributions to the lay-off history of the firm, including non-renewals of temporary contracts – of course, such a scheme has to be well designed in order to avoid potential adverse effects on jobs.

2.2. *Low-pay incidence: patterns and policy significance*

The evolution of the incidence of low-paid work over the 1994-2004 period provides a rather mixed picture (Figure 5.7).[20] The incidence of low pay has increased in a number of countries, starting from a low level in Denmark, from a medium level in Germany and the

Figure 5.7. **Evolution of the incidence of low-paid work since the mid-1990s[a]**

2003-2004[b]

Mid-1990s[c]
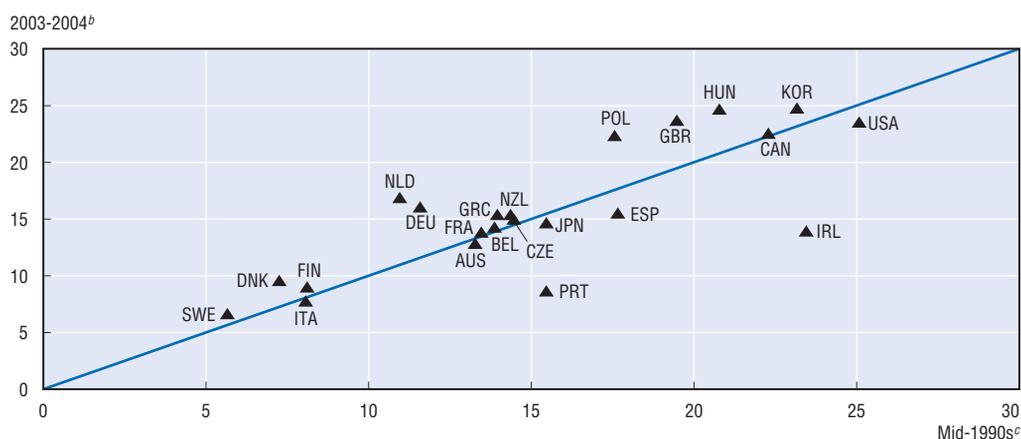
a) Percentage of full-time wage-earners earning less than two thirds of the median wage of full-time wage-earners.
b) 2000 for Hungary, 2001 for Belgium, Finland, France, Greece, Italy, Portugal and Spain, 2002 for Germany and Poland, 2003 for Canada and Denmark, 2004 for the other countries.
c) 1996 for Denmark and Finland, 1997 for Canada and Sweden, 1994 for the other countries.

Source: OECD Earnings database and OECD calculations based on the European Community Household Panel (ECHP), waves 1 and 8.
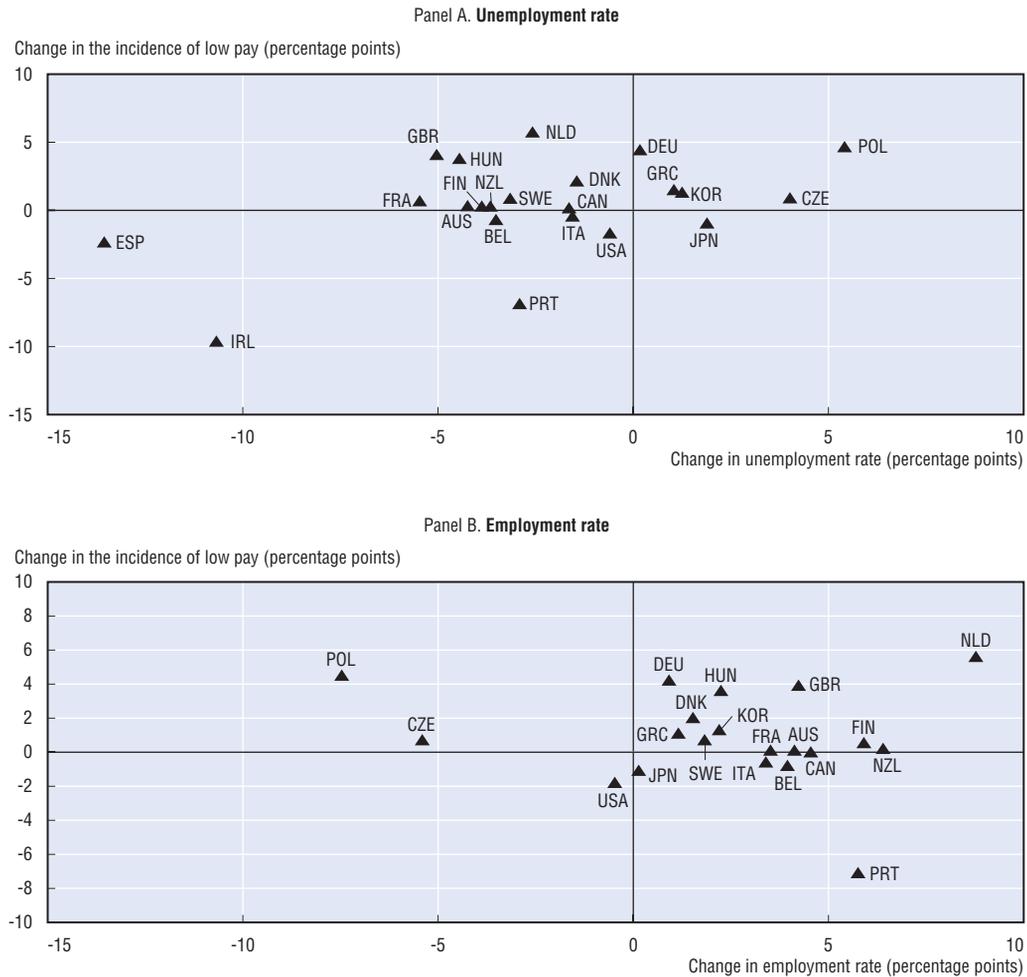
Statlink: *http://dx.doi.org/10.1787/184587347336*

Netherlands, and from an already high level in Hungary, Poland and the United Kingdom. By contrast, it decreased significantly from a high level in Ireland, and from a medium level in Portugal. The United States also witnessed some reduction in the incidence of low-pay, although it remains in the group of countries where more than 20% of employees are low-paid, which also includes Canada, Hungary, Korea, Poland, and the United Kingdom. Not surprisingly, the incidence of low-paid work is lower in countries where the minimum wage is set at a higher level (see OECD, 2006a, Figure W.5.5).[21]

In all countries, youth low-pay incidence is at least two times that of the prime-age group, ranging from 18% in Portugal to 67% in the Netherlands.[22, 23] Low-educated workers are also more often low-paid than those with medium and higher education, with incidence ranging from a low of 13% in Portugal to above 30% in the United Kingdom.[24] Newly-hired employees may also be over-represented among the low-paid, as suggested by the case of Canada.[25] The over-representation of youth in low-paid jobs need not automatically imply low living standards – many youth are still living with their parents – or poor long-term career prospects, but the association between low-education and low-pay suggests that low-pay traps may be important.

No systematic link between changes in unemployment and changes in low-pay incidence

In general, there is no systematic relationship between changes in unemployment rates since 1994 and changes in low-pay incidence (Figure 5.8). Ireland, which saw a big fall in unemployment and instituted a legal minimum wage at the end of the 1990s, is the main outlier. Thus, neither the hopes of the optimists (*i.e.* that reducing unemployment automatically solves the low-pay problem) nor the fears of the pessimists (*i.e.* that labour market reforms promoting employment will result mainly in a proliferation of low-paid jobs) seem to be borne out.

Figure 5.8. **Changes in the incidence of low pay
and unemployment/employment rates, 1994-2004**[a]

Panel A. **Unemployment rate**

Change in the incidence of low pay (percentage points)

Change in unemployment rate (percentage points)

Panel B. **Employment rate**

Change in the incidence of low pay (percentage points)

Change in employment rate (percentage points)

a) 1997-2003 for Canada; 1996-2003 for Denmark; 1996-2001 for Finland; 1994-2000 for Hungary; 1997-2004 for Sweden; 1994-2001 for Belgium, Finland, France, Greece, Italy, Portugal and Spain, 1994-2002 for Germany and Poland.

Source: OECD Earnings database; OECD calculations based on the European Community Household Panel (ECHP), waves 1 and 8; and OECD database on Labour Force Statistics.
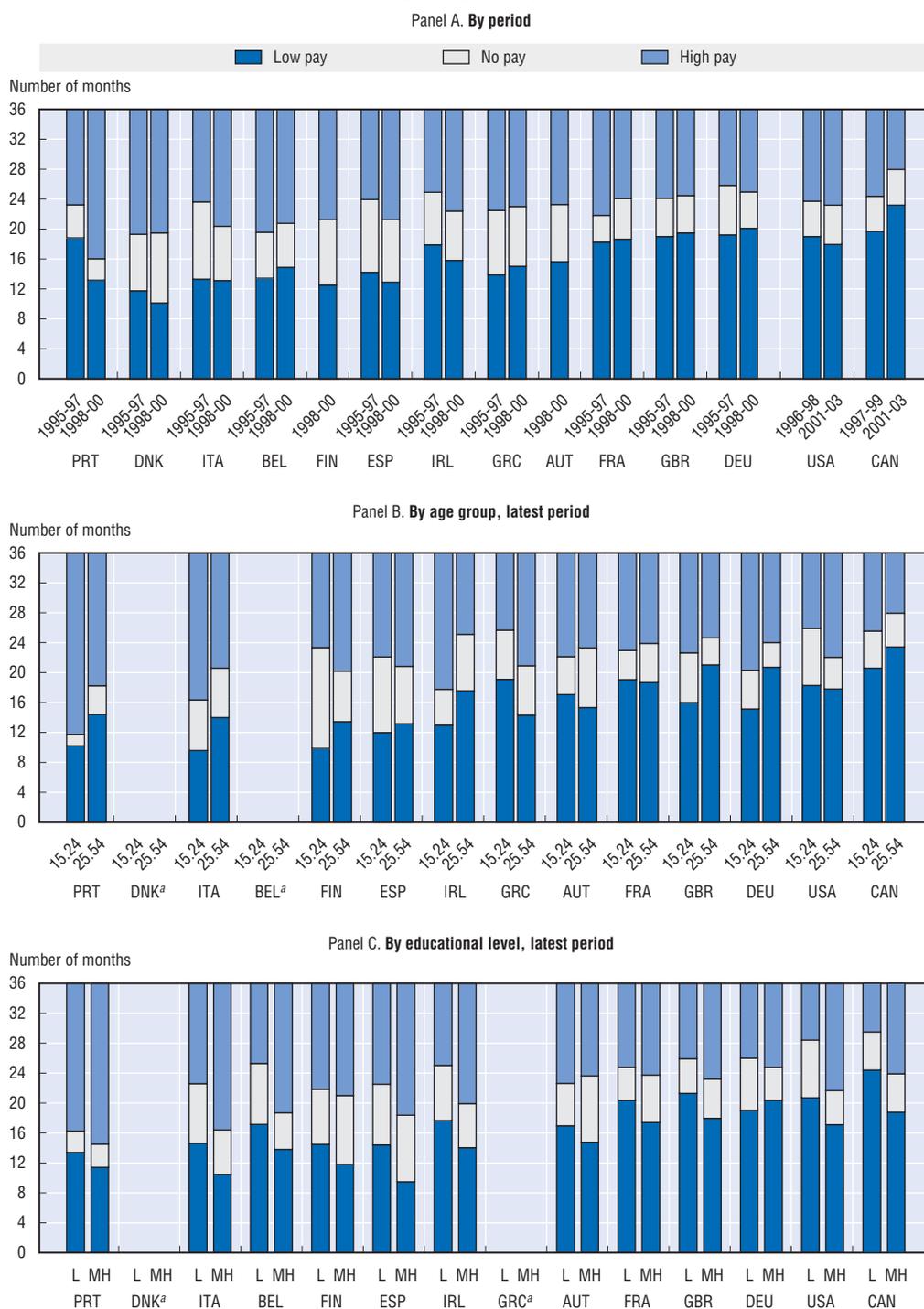
Statlink: *http://dx.doi.org/10.1787/356328108441*

Low-paid work often alternates with non-employment and can become a trap

OECD (2003a, Chapter 2) evidenced the existence of low-pay traps. To evaluate the mobility of low-paid workers, Figure 5.9 reports the following indicator for workers starting in low-paid jobs: the number of months over the three-year period 1998-2000 that are spent in: *i)* low-paid jobs (low pay); *ii)* unemployment or non-employment (no pay); and *iii)* higher paid jobs (high pay).[26] This measure is better than simple transition rates because it takes into account work intermittence and repeat spells of low-paid employment.

Mobility prospects of low-paid workers across countries tend to be negatively correlated with low-pay incidence. They are lowest in Canada, the United Kingdom and the United States, which belong to the group of countries with high low-pay incidence and in France and Germany, which have medium incidence (Figure 5.9, Panel A). By contrast, the number of months spent in low-paid jobs by workers who were low-paid in 1997 over the subsequent three years is lowest in Denmark, Finland, Italy and Portugal, which belong to

Figure 5.9. **Risk of low-pay/no-pay traps**

Cumulative months of low pay, no pay, high pay over three years for persons low-paid
at the beginning of the period

Panel A. **By period**

Panel B. **By age group, latest period**

Panel C. **By educational level, latest period**

Note: Countries are ranked in increasing order of the number of months spent in no pay or low pay over the 1998-2000 period.
L (low): Less than upper secondary education. MH (middle-high): Upper secondary education and above.
a) Data not shown due to too small sample sizes.

Source: OECD calculations based on the European Community Household Panel (ECHP), waves 2 to 8, for the European countries; based on the Survey of Income and Program Participation (SIPP), for the United States; and Statistics Canada calculations based on the Survey of Labour and Income Dynamics (SLID), for Canada.

Statlink: *http://dx.doi.org/10.1787/851843433852*

the group with low incidence of low pay. The same overall picture holds when taking into account periods of non-employment together with periods of low pay, although the differences across countries are more muted. In Portugal, time spent in non-employment is very low, and this is the country where upward mobility is highest: workers who were low-paid at end-1997 spent more than half of the three subsequent years in high-paid work (20 out of 36 months).

Overall, upward mobility of low-paid workers has tended to improve between the mid-1990s and the late 1990s or the early 2000s – possibly reflecting the effects of the cycle (Figure 5.9, Panel A). The number of months spent in high-paid jobs increased substantially in Portugal, to a lesser extent in Ireland, Italy and Spain, and slightly in Germany and the United States.[27] Upward mobility remained stable in Denmark, as the reduction in time spent in low-paid work was compensated by an increase in time spent in non-employment. The other countries experienced a deterioration of upward mobility: significant in Canada, France, medium in Belgium, and small in Greece and the United Kingdom.[28]

In most countries, low-pay/no-pay traps weigh more heavily on prime-age workers than on youth, who, not surprisingly, have on average higher upward mobility (Figure 5.9, Panel B). Finland, Greece and the United States are the sole exceptions. In addition, compared with their higher-educated counterparts, low-educated workers who are in low-paid jobs are less likely to move to high-paid jobs, and are more likely to move to non-employment (Figure 5.9, Panel C). The gap between the two groups is particularly large in Belgium, Canada, Italy, Ireland and the United States.[29] In the latter country, low-educated workers who were low-paid at end-2000 spent less than eight months in high-paid jobs in the three subsequent years.

It is not completely surprising that low-educated workers are less likely to move to high paid jobs than higher-educated workers. And to some extent, a high share of low-paid workers may reflect the fact that the low-educated persons are employed instead of out of employment. However, among countries with comparable shares of low-educated population in the 25-64 age group,[30] even when taking into account non-employment, the performance of the low-educated group varies significantly (Figure 5.10). In Denmark for example, 55% of the prime-age low-educated persons earn more than "low" wages, which is significantly more than most of the countries shown in Figure 5.10. This could be explained by different systems of adult training, but also more fundamentally by institutional differences, notably in the wage formation system.

Policy implications

Care is needed when considering how policy can address low-pay issues. Indeed, in some countries, policies have contributed to keep low-productivity workers out of jobs. Nevertheless, low-pay traps raise various concerns for policy. First, as already noted, low-paid workers often end up in non-employment and may have to be re-activated, which is more difficult if the prospects of keeping an employment and possibly moving upward in the wage scale are low. Depending on the country, low-paid workers spend between a quarter and three-quarters of the three-year period in non-employment, compared with less than one tenth of the three-year period for high-paid workers.[31] There may also be a waste of productive potential if individuals who could move to higher paid jobs are trapped in low-paid jobs or cycle between such jobs and non-employment. This may be the case if skills are not properly recognised, or when labour market intermediation is inefficient, for example if placement agencies face incentives to provide the unemployed with the first job

Figure 5.10. **Share of low-educated workers receiving low pay or no pay
for selected countries, early 2000s**[a]
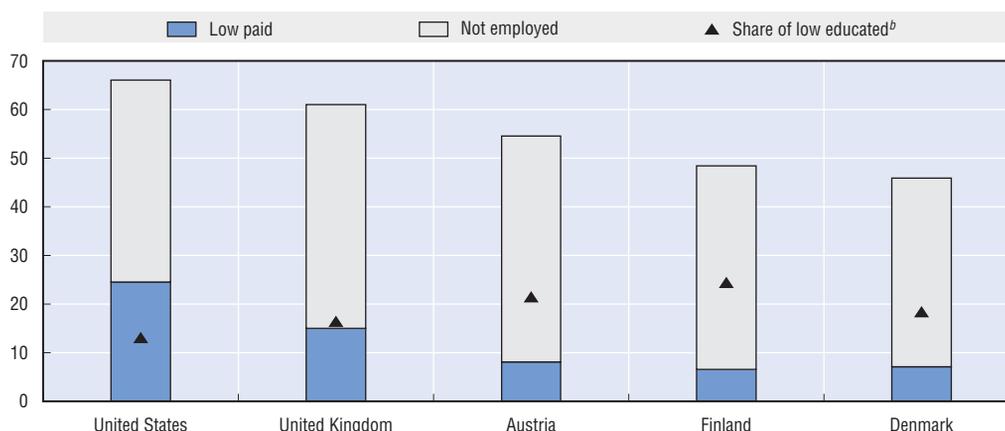
a) Data shown refer to 2001 for the United States and to 2003 for the other countries.
b) Percentage of all persons aged 25 to 64.

Source: OECD calculations based on the European Community Household Panel (ECHP), wave 8, for the European countries; based on the Survey of Income and Program Participation (SIPP), 2003, for the United States; and OECD (2005), *Education at a Glance: OECD Indicators*, Paris.

Statlink: *http://dx.doi.org/10.1787/013305633680*

available, not always suited to the experience and abilities of the jobseeker. The existence of low-paid groups with little hope for upward mobility may also raise significant social concerns in some countries.

Training policy may play an important role for transition patterns (see Section 4 of Chapter 3). In the case of the United States, Johnson and Corcoran (2003) show that skill deficiencies often prevent current and former welfare recipients from making the transition to a better job. Yet, people holding "low-paid" jobs are the least likely to receive training. Better recognition of the skills that workers possess, *e.g.* through systems of certification of prior learning, may also help unlock the career potential of certain low-paid workers.

Providing appropriate incentives for job-placement agencies is also important. Managing the performance of employment agencies by tracking long-term employment and earnings outcomes would help in this respect (OECD, 2005a, Chapter 5). Such techniques are still rarely applied in practice though; some pilot programmes using administrative tax databases to follow employment and wage outcomes of individuals placed on the labour market are being implemented by the Jobcentre Plus in the United Kingdom. Shifting the objectives from short-term placement towards long-term sustainability of employment would require including job quality statistics (the most simple being wages and job tenure) in the employment agencies' reporting statistics (Mansour, 2005; National Employment Panel, 2004).

In addition, it may be important to ensure that policy measures implemented to increase labour demand for, and participation of, low-paid workers do not unintentionally end up blocking upward mobility of these workers. For example, thresholds should be avoided when reducing social contribution rates or implementing in-work benefits schemes, along the lines adopted in the Netherlands where the social contribution rate rises gradually with the pay level (see Sections 2.2 and 3.2 in Chapter 3.

Notes

1. The data compilation and analysis are discussed in detail in Burniaux and Padrini (2006).

2. Overall inequality is measured by the Gini coefficient and the ratio of the average income of the ninth to the first decile. Different measures of relative poverty include the proportion of individuals with disposable income below 50% and 60%, respectively, of the median income. Measurement of inequality with emphasis on the bottom of the distribution involve a General Entropy index with the entropy parameter set equal to –1 calculated over the entire distribution, a Mean Log Deviation (MLD) index calculated over the entire distribution, the ratio of the average disposable income of the 5th to the 1st decile, a Gini coefficient calculated over the three bottom deciles of the distribution and the mean income of the three bottom deciles relative to the mean income of deciles four to six. The data sources include data from Förster and Mira d'Ercole (2005); the Luxembourg Income Study (LIS) data set; the European Community Household Panel (ECHP) data set; and the Cross National Equivalent Files (CNEF) data set. See Burniaux and Padrini (2006) for details.

3. For Australia during the period after 1993-94, the only available data for income inequality and relative poverty come from Förster and Mira d'Ercole (2005). However, more recent national sources, including the Australian Bureau of Statistics, report no significant increase of income inequality and a small decrease of the relative poverty rate. These evolutions are in contradiction with the data from Förster and Mira d'Ercole (2005). Therefore, in order to maintain comparability across countries, no evolution are reported for Australia for the period after 1993-94.

4. Similarly, cross-country comparisons of relative poverty rates are not informative concerning international differences in the incidence of material deprivation. See Burniaux and Padrini (2006) for a discussion of absolute versus relative poverty measures.

5. Keeping the poverty thresholds constant in real terms over a long period of time yields unrealistic poverty evolutions in countries with rapidly growing standards of living. For instance, assuming a constant real threshold (corresponding to 50% of the median income in the initial year) in Portugal would imply a dramatic fall of poverty incidence from 19% in 1979-80 to 3% only in 2000, according with the data collected by Förster and Mira d'Ercole (2005).

6. Based on a different data source than for the other similar tables.

7. Non-working households are included in the distribution (*i.e.* with zero earnings).

8. In Burniaux and Padrini (2006), the redistributive power of transfers and taxes is measured in three alternative ways: 1) the inequality change resulting from adding transfers and taxes to other income sources; 2) the inequality change resulting from removing transfers or taxes from total disposable income; and 3) the contribution of transfers and taxes to total inequality assuming that interaction effects are equally distributed across all income sources.

9. Again considering that the decline of current unemployment rates in Sweden and Finland from exceptionally high levels in 1994 represented cyclical rather than structural reductions.

10. Though the United Kingdom is very close to the limit where relative poverty can be considered as transitory and has an average proportion of chronic poverty despite a higher overall poverty incidence (see Burniaux and Padrini, 2006).

11. Calculated as the proportion of individuals living in households with an average disposable income over the period considered below or equal to the median disposable income.

12. Stronger unions also tend to increase the labour share of total national income, which tends to reduce inequality to the extent that labour earnings are more equally distributed than those from capita (Checchi and Garcia Penalosa, 2005). On the other hand, high union bargaining power is likely to increase unemployment by pricing less productive workers out of jobs, thus raising between-group inequality and through this channel, widening the disposable income distribution of the whole population (although the impact of unemployment on inequality is also ambiguous as the unemployed have a lower income than the employed but the distribution of their incomes is more equal).

13. The shares of dependent employees on temporary contracts in Ireland and the United Kingdom were 3% and 6% respectively in 2004, while that of employees with tenure inferior to one year were 19% and 18%. Portugal and Spain, with shares of temporary jobs of 20% and 30% respectively, had 11% and 19% of dependent employees with tenure inferior to one year in 2004.

14. In Ireland, this also corresponds to a tightening of the regulation on the use of temporary contracts.

15. Such transition rates were not calculated for the United States since the dividing line between temporary and permanent contracts is difficult to establish in this country, and longitudinal surveys such as SIPP used below to assess low-paid workers mobility do not include such a labour status variable.

16. The gap in transition rates out of employment between permanent workers with tenure inferior to one year and temporary workers varies across countries. It is small in Belgium and Ireland, but large in Finland, France and Italy (see OECD, 2006a, Figure W.5.3).

17. These figures correspond to the number of workers who had temporary jobs in 1998 and were either still temporary workers or not employed in 2001, divided by total employment in 2001. Table W.5.2 in OECD (2006a) provides the transition rates to all categories of labour force status.

18. Youth refer to the 15-24 age group.

19. See Figure W.5.4 in OECD (2006a) for comparative statistics for 13 European countries. In their econometric analysis for Spain, Casquel and Cunyat (2005) also find that low-educated workers more often get stuck in temporary contracts, while temporary contracts typically serve as a stepping stone for high-educated workers.

20. Low pay is defined in relative terms as less than two-thirds of the median wage. As when looking at poverty, an absolute measure of low pay could be envisaged. Australia, Canada, the United Kingdom and the United States also measure poverty in absolute terms. This consists in defining a minimum standard (basket of goods and services) judged necessary to live, i.e. for physical subsistence, generally called a poverty line. The same could be done for low pay. However, this type of measures raise a number of theoretical and empirical problems. First, as illustrated by the fact that poverty lines tend to rise over time, what is needed for physical subsistence rests on a subjective judgment and tends to increase as standards of living are rising (see Fisher, 1995). Second, defining a minimum standard is even more difficult at the international level.

21. The existence of a reduced minimum wage for youth in a number of countries, such as Australia, Belgium, Ireland, the Netherlands, New Zealand and the United Kingdom, may be responsible for part of the "noise" in the relation. See Section 3.1 of Chapter 3 for a fuller discussion of minimum wages, including potential effects on employment.

22. The Netherlands is the country with the most differentiated minimum wage for youth, ranging progressively from 30% of the statutory rate for those aged 15 to 85% for those aged 22.

23. Older workers also experience relatively high incidence of low-pay in Germany and the United Kingdom (17 and 22% respectively), although to a much lesser extent than youth.

24. The Netherlands is the only exception to this rule, as workers with medium education experience a higher low-pay incidence than those with low education, which is related with the high incidence among youth associated with the very differentiated youth minimum wage mentioned above.

25. Based on data from various surveys, Morissette and Johnson (2005) find that the share of low-paid jobs remained constant in Canada over the 1981-2004 period. However, wages of newly hired employees fell significantly over the same period, and this is the case across the various age groups, while wages of senior workers improved (especially for men). This result is not simply due to compositional effects, as the increase in the wage gap between new entrants and established workers is reduced but persists when taking into account individual and job characteristics. The incidence of temporary jobs also rose more among newly hired, while coverage among these workers by employer-sponsored pension has fallen. In principle, lower wages at entry into work could be compensated subsequently by a steeper earnings profile. Looking at the wage profile of successive cohorts of labour market entrants, Morissette and Johnson find that they have become steeper for highly educated workers, but not for workers with no university degree. One explanation to that phenomenon is that Canadian employers may have responded to technological changes and/or more intense competition within industries and from abroad by cutting wages for newly hired workers while maintaining those of workers with greater seniority.

26. The period is restricted to three years due to statistical constraints.

27. In Ireland, Portugal and the United States, this corresponds to a decrease in time spent in low-paid jobs, while in Germany and Italy, time spent in non-employment decreased, and both decreased in Spain.

28. Except for France, where it corresponds to higher time spent in non employment, this reduction in the period spent in high paid-jobs is mostly compensated by an increase in the time spent in low-paid jobs.

29. Austria and France are two exceptions, since the low-educated have respectively higher and equal upward mobility than the medium/high-educated.

30. The analysis is restricted to countries with similar shares of low-educated in the population, because otherwise, the differences in performance includes a compositional effect. For example, it is logical that in Portugal, where more than 70% of the 25-64 age group is low-educated, a smaller share of the low-educated is low-paid (as the median wage probably corresponds to a low-educated worker) or not employed (the less educated the population, the smaller the technological bias against the low-educated; there is thus more labour demand for the low-educated and thus higher participation rates).

31. Calculations done in the same way as for low-paid workers using ECHP and SIPP, not shown in the report. Workers high-paid at the beginning of the period spent between one and three months in non-employment.