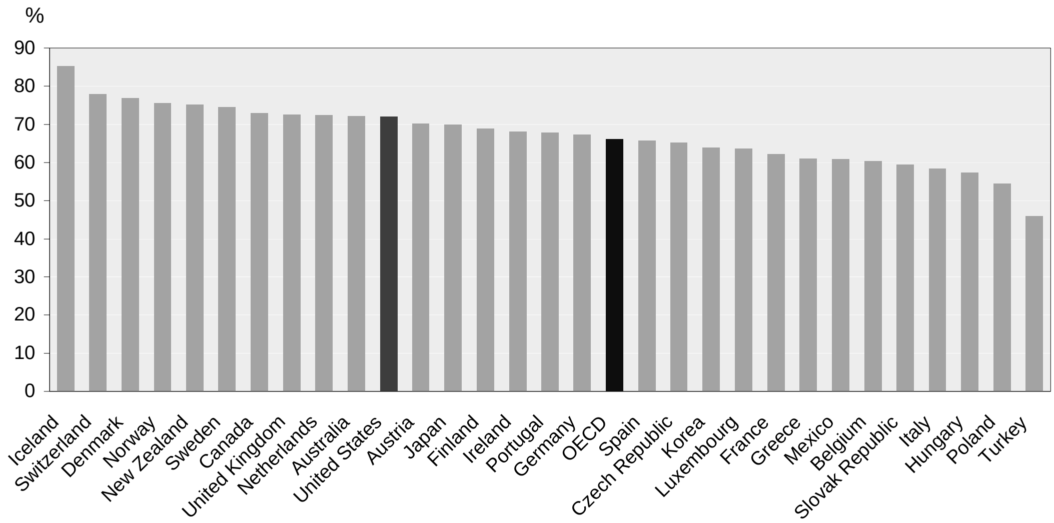
Employment Outlook 2007 -- How does the United States compare?

US employment rates are well above the OECD average. The latest edition of the OECD's *Employment Outlook* reports that 72% of working age Americans have a job, compared with 66% for the OECD area as a whole (Figure 1). Lower than average unemployment in the United States accounts for about one-quarter of this advantage, while higher than average labour force participation accounts for the remainder. Nonetheless, US employment rate lags those in the Nordic countries, Switzerland and New Zealand, where labour force participation rates are even higher.

Figure 1. Proportion of people of working age who are employed, 2006
Employment as a percent of population aged 15-64



Source: OECD Employment Outlook 2007.

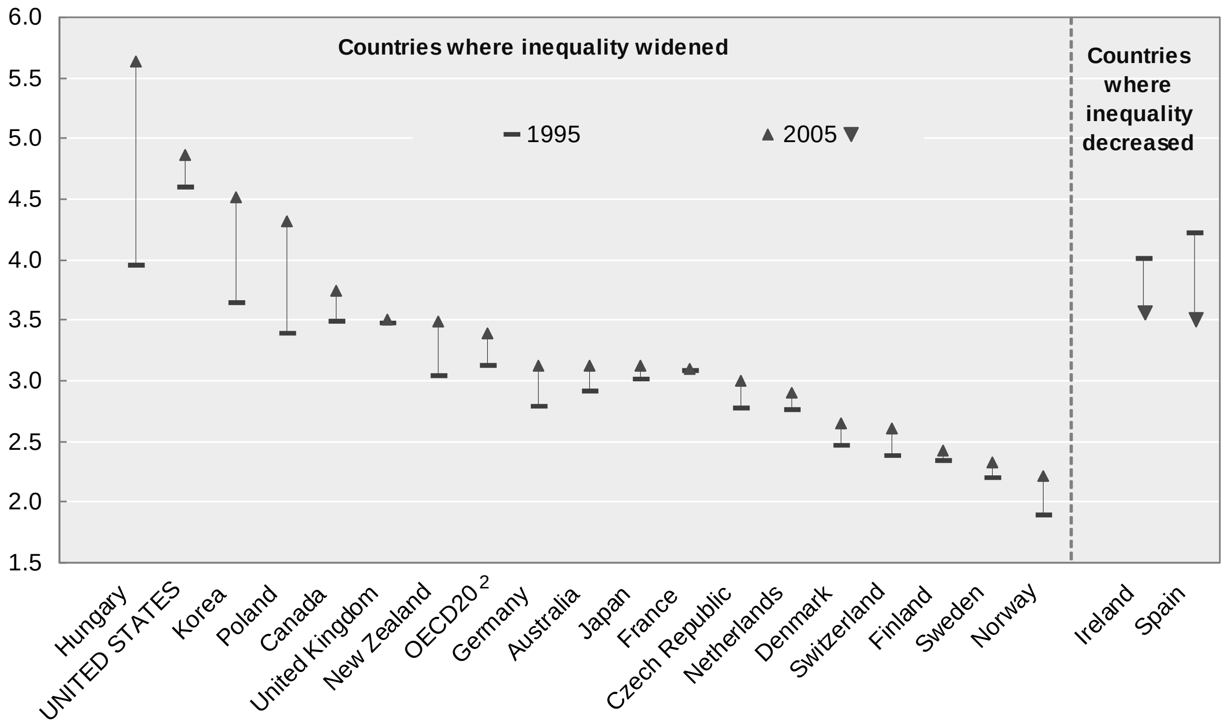
One reason for the United States' strong employment performance is low labour taxes. *Public* social expenditures represented 16% of GDP in 2003, one of the lowest in the OECD. As a result, the labour taxes needed to fund public social expenditures are relatively low –labour taxes account for less than 30% of labour costs, against 40% on average in the OECD area. However, *private* social expenditures in the United States are the highest in the OECD, at 10% of GDP. Employers finance much of this private spending and this raises non-wage costs for the employers choosing to offer health insurance and other benefits. Heavy reliance on employer-provided health insurance also means that access is more uneven in the United States than in most other OECD countries.

Labour productivity grew by 2.1% per year between 1995 and 2005, moderately above the OECD average growth rate. The report identifies policies that can raise living standards by raising both employment and productivity. For example, introducing a moderate level of paid maternity leave in the United States would increase women's attachment to the labour force around the time of childbirth, while also helping new mothers to retain the same job and capitalise on prior investments in firm-specific training or skills (thus supporting productivity). Extending unpaid parental leave is also likely to have a positive, albeit smaller, impact on productivity.

The growth in offshoring raises productivity... The report assembles new empirical evidence about whether recent changes in foreign competition are creating new vulnerabilities for workers. It shows that offshoring – sometimes referred to as international "outsourcing" – typically is not associated with net job losses in the offshoring industry. The productivity gains from offshoring generate enough additional sales and hiring to offset the jobs lost by relocating certain production stages to foreign production sites. The available data suggest that offshoring is several times larger, relative to value added, in many European countries than in the United States.

... but also creates potential vulnerabilities for workers. Offshoring allows firms to respond more flexibly to changes in business conditions via changes in the mix of production at home and abroad. This flexibility is a source of competitive advantage for firms, but may also expose workers to increased employment and wage volatility. The ability of workers to bargain for higher wages may also be compromised, helping to explain why wage growth has tended to lag productivity growth in recent decades. Offshoring also reduces the demand for low-skilled workers relative to more skilled workers and probably has been among the factors causing earnings inequality to rise in most OECD countries in recent years. The share of wages in national income has fallen less in the United States than in Japan and most EU countries during the past decade, while US wage inequality remains higher than in all OECD countries except Hungary (Figure 2).

Figure 2. Earnings inequality trends in selected OECD countries, 1994-2005
Ratio of the 90th to 10th percentile earnings



Note: The figure shows that in all countries except Ireland and Spain, the earnings of the 10% best-paid workers increased more than the earnings of the 10% least-paid workers, over the 1995-2005 period (*i.e.* earnings inequality widened).

Note: Data are for full-time workers. The data shown are consistent over time, but not entirely comparable across countries owing to differences in pay reporting periods and coverage of workers. OECD is an unweighted average of countries shown in the figure.
Source: OECD, Earnings Distribution Database.

For further information, visit www.oecd.org/els/employmentoutlook.