

Employment

LABOUR MARKET AND SKILLS POLICIES FOR STRONG, INCLUSIVE GROWTH

- ▶ Wage stagnation and rising inequality are putting pressure on many American households.
- ▶ Facilitating movement up the career ladder and shoring up wages at the bottom of the pay ladder are policy priorities.
- ▶ The flexibility of the education and training system for US workers is international best practice, but relatively low public spending and uneven local capacities undermine its potential.
- ▶ More work could be done on engaging employers with in-work training, development of career ladders, and promoting skills utilisation.
- ▶ Providing greater access to paid family leave would enable more workers to progress on their careers and reduce the gender gap. The statutory minimum wage can play a larger role in assuring that full-time workers can support their families.

What's the issue?

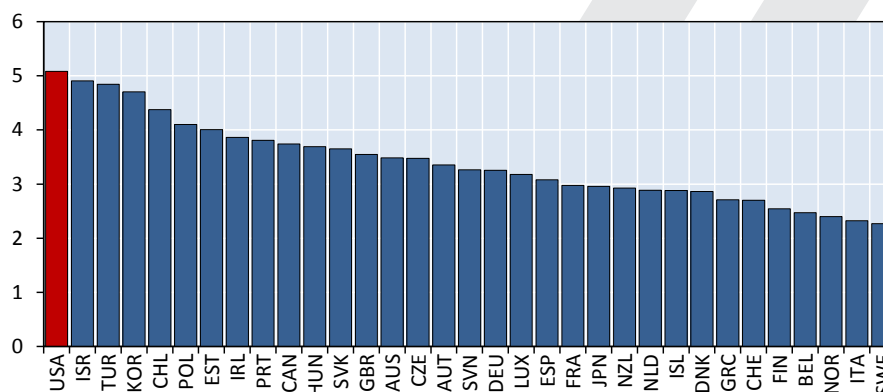
The Great Recession put many American middle income families under economic stress. Although the 2008-09 surge in unemployment has largely receded, this economic turmoil highlighted longer standing concerns about the wage stagnation which has squeezed the middle class and increased already high levels of inequality. The wages of a full-time worker at the 90th percentile of the earnings scale is more than five times that of a worker at the 10th percentile, the widest dispersion in the OECD. The US also has a higher than average number of adults lacking the basic skills needed to move up the career ladder. According to the OECD

Survey of Adult Skills, one in three American adults have low numeracy skills, compared to a cross-country average of one in five. Women face additional barriers to career progression, preventing them from realising their full career opportunities while reducing the economy's growth potential.

Engaging employers in upskilling workers is particularly important given the relatively high share of low-skilled adults who are employed (63% compared to a cross-country average of 56%). As business-led entities, Workforce Investment Boards (WIBs) are well placed to

Wage inequality is particularly high in the US

Ratio of 9th to 1st decile earnings, 2013 or latest available year



Source: OECD Earnings Distribution Database, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm#earndisp.

create stronger linkages between workforce development and employers. Approaches to employer engagement such as in-work training, development of career ladders, and promoting skills utilisation can facilitate career progression while boosting productivity. While there are innovative examples of career ladders initiatives in the US, particularly in healthcare, there is more room to bring these to scale. Furthering employer engagement is also important for expanding apprenticeships, which can be particularly effective for young people with limited or no post-secondary education.

Workers with family care responsibilities, disproportionately women, too often face trade-offs between those responsibilities and career progression. The US is the only OECD country that does not offer paid maternity leave on a national basis, and just 60% of workers are eligible for unpaid employment protection around childbirth or family illness. Paid family leave increases the likelihood that women work, both by giving them an incentive to work prior to childbirth and by offering them job protection when they are ready to return to their job.

An important complement to these strategies to raise the bottom rung of the pay ladder is to increase the minimum wage. The wage penalty associated with low skill levels is especially large in the US. The Federal minimum wage has not kept up with price inflation and is now one-quarter lower in constant dollars than it was in the late 1960s. The minimum wage has fallen even more sharply relative to the average wage – from 53% in 1968 to 35% in 2014.

Why is this important for the United States?

Wage stagnation and rising inequality could make it difficult for increasing numbers of Americans to stay in the middle class. Additionally, certain places in the US have high concentrations of low quality work. A combination of low skills supply and low skills demand creates a vicious cycle known as a ‘low skills equilibrium’, undermining productivity and growth.

Helping women reconcile work and family would help many families to secure their hold on the middle class while also boosting overall economic growth. The female participation rate has been falling since 2000 and was 12.2 percentage points below that of men in 2013. Closing the gender gap in participation by 2040 would increase the size of the US labour force by about 12.5 million workers and increase annual US growth by 0.22 percentage points per year. A more rapid elimination of the gender gap by 2025 could increase the average annual rate of growth by as much as 0.5 percentage points.

The US invests less in its active labour market programmes than most other OECD countries. There are also significant differences in the performance and capacities of WIBs, which are central actors in the pursuit of a more inclusive and strong labour market. Improving the capacity of the system, and notably closing the gap between the lower- and better-performing

WIBs, is important for ensuring that they are able to take full advantage of the flexibility provided within the US workforce system and, thereby, improve labour market outcomes.

What should policymakers do?

- ▶ Expand employer engagement in the areas of effective in-work training, developing career ladders and skills utilisation.
- ▶ Build capacities of lower-performing WIBs to better implement workforce development strategies and build stronger relationships with employers.
- ▶ Raise the Federal minimum wage and encourage more employers to offer paid family leave.



Further reading

OECD (2014), *Job Creation and Local Economic Development*, OECD Publishing. <http://dx.doi.org/10.1787/9789264215009-en>

OECD (2014), *Employment and Skills Strategies in the United States*, OECD Publishing. <http://dx.doi.org/10.1787/9789264209398-en>

OECD (2014), *Quality Apprenticeships for Giving Youth a Better Start in the Labour Market*, background document for G20-OECD-EC conference, OECD Publishing. http://www.oecd.org/els/emp/G20-OECD-EC%20Apprenticeship%20Conference_Issues%20Paper.pdf

OECD (2015), *Minimum Wages after the Crisis: Making them Pay*, OECD Publishing, forthcoming.