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The 2016 OECD Employment Outlook – Main Findings & Issues
Assessment by the TUAC Secretariat
Paris, 7 July 2016

The 2016 Employment Outlook of the OECD released on the 7th July gives a warning on the deteriorating employment situation particularly in Europe in the light of the UK referendum outcome on June 23 to leave the European Union. The Outlook contains some pertinent analysis and policy messages on the longer term labour market issues[1], in particular on the use of skills at work (see chapter 2). At the same time, however, other arguments and less than transparent statistical techniques are used to back up the standard policy conclusions advocating more flexibility and weakened labour market institutions.

Recent labour market developments

The first outlook chapter recognises that, ten years after the financial crisis, employment rates will barely have recovered to pre-crisis levels by end 2017. The OECD acknowledges that the 'Great Recession' resulted in a significant increase in labour market insecurity.

Despite these findings, the Outlook takes a far too complacent view on persisting problems.

The deterioration of job quality: the OECD asserts that the increase in labour market insecurity is likely to be temporary as unemployment rates and unemployment inflows have been falling. Here, it is important to note that the OECD 'job quality' indicator used, does not address the issue of the stability and reliability of employment contracts as its sub index (labour market security) only measures the probability of falling into unemployment, of finding a new job and the unemployment benefit rates. Issues such as zero hour contracts, false independent work, short term contracts, or involuntary part time work are overlooked.

Moderate wage dynamics: In contrast to the 2014 Employment Outlook which acknowledged that internal devaluation policies in the euro area periphery had gone too far and risked triggering deflationary, the 2016 edition finds that "all is as it should be": Wage moderation in countries with chronic trade deficits together with "relatively rapid growth' in unit labour costs in Germany since 2011 is part of a rebalancing process. If wage moderation has not yet translated into growing exports, this is due to a lack of structural reforms, keeping workers in declining, non-export sectors.

Here, the OECD is ignoring the fact that wage dynamics in several economies (in the Euro Area but also Japan) have become too weak to be compatible with the objective of keeping price stability. Concerns from several central banks (ECB, Bank of Japan) about the risk of wage bargaining internalising too low headline inflation rates, and thereby turning a situation of temporary zero inflation into longer term deflation, are also being ignored in the Outlook.

[1] http://www.oecd.org/employment/oecd-employment-outlook-19991266.htm

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This stands in contrast with the Economic Outlook the OECD released only a month ago. This other flagship publication expressed serious concerns about moderate wage dynamics and stressed that the usual transmission channel that produces an acceleration of the recovery has broken down. Whereas unemployment rates in the US and UK have fallen, wages are not keeping up as they did in the past. Consequently, as the Economic Outlook confirms, depressed demand is holding back the pace of the recovery.

Skills use at work

Based on data from the OECD Survey of Adult Skills (Programme for the International Assessment of Adult Competencies (PIAAC)) , this chapter is right in pointing to the fact that skills policies should not be limited to the supply side (‘investing in skills’) but extend to the demand side (‘making best use of skills at the workplace’). The OECD finds that many workers (up to 25%) seem to be overqualified for the job they are doing. This puts business claims into question of not being able to find the right workers for open vacancies and that unemployment is therefore structural.

The Outlook presents several arguments as to why managers do or do not make the best use of the skills of their workforce. It should be noted that high performance workplaces (which are most common in Nordic countries) are to a large extent correlated with a better use of workers’ skills. Offshoring of low technology production or services in turn replaces low skilled jobs (that are exported) with jobs necessitating a higher use of skills (design, marketing, pre-production). Meanwhile, stronger labour market institutions encourage employers to improve the use of workers’ skills. Most importantly, higher minimum wages (especially when these are set at a central level), union density, mandatory extension of bargaining outcomes, sectorial bargaining and stricter protection for temporary workers, all increase the use of skills (see table below).

Table 2.5 Labour market institutions and skills use at work, selected PIAAC countries[a]

Coefficients of OLS regressions: interaction of proficiency score with selected institutional variables[b,c,d]

	Panel A				
	Reading	Writing	Numeracy	ICT	Problem solving
Proficiency score	-0.20	0.05	0.94 ***	0.06	0.69 **
Interaction of proficiency score with:					
Tax wedge	0.02 ***	0.02 ***	0.01 **	0.04 ***	0.02 ***
Minimun to median wage ratio	1.27 ***	1.43 ***	0.20	3.17 ***	0.86
Minimun wage setting centralisation	0.06 ***	0.15 ***	0.07 ***	0.07	0.10 *
Employment protection legislation (permanent workers)	-0.38 ***	-0.67 ***	-0.28 ***	-0.71 ***	-0.54 **
Employment protection legislation (temporary workers)	0.23 ***	0.41 ***	0.20 ***	0.39 ***	0.40 ***
Union density	0.03 ***	0.05 ***	0.02 ***	0.07 ***	0.05 ***
Mandatory extension of bargaining outcomes	0.32 ***	0.49 ***	0.26 ***	0.61 ***	0.48 ***
Bargaining level	-0.82 ***	-1.06 ***	-0.36 **	-1.73 ***	-1.14 ***
Co-ordination in wage bargaining	0.30 ***	0.43 ***	0.14 ***	0.52 ***	0.38 ***
Articulation of sectoral bargaining	0.22 ***	0.13 ***	0.01	0.45 ***	0.22 **
Product market regulation	-0.36 ***	-0.91 ***	-0.69 ***	-1.18 ***	-1.37 ***
Sample size	76320	76321	76320	55005	54943

These findings give support to the trade union arguments that employers, have choices in determining the efficient organisation of the workplace and that strong labour market institutions are necessary to move away from the “low wage/low productivity equilibrium”. The findings also go against what has become the established wisdom of the policy of ‘internal devaluation’, which is based on the fragmentation of collective bargaining to offer individual employers more leverage over wages and working conditions.

However, the OECD then plays down these findings by arguing that “*higher labour costs encourage employers [to use] existing skills more fully, although higher labour costs may also have a negative effect on employment*” (par 82).

As higher wages do not increase labour costs if productivity is increased as well, such argument is inconsistent.

The key findings of the OECD (par 3) regrettably continue in this vein by stating that policies to strengthen labour market institutions are "*less actionable in terms of policy*".

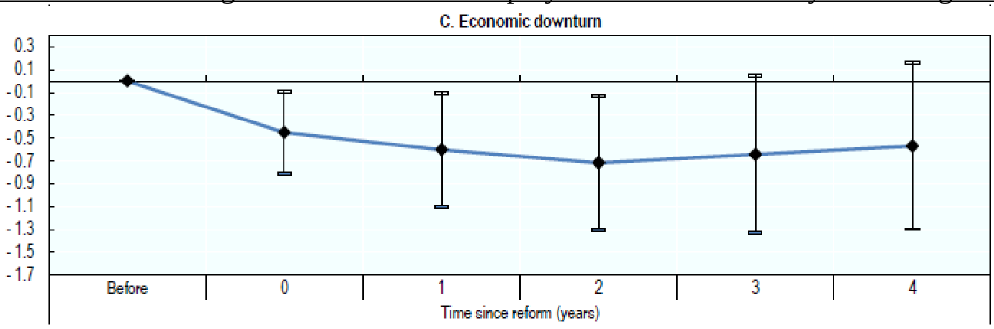
Reducing Job Protection for Regular Workers: Pain before the gain?

EPL reform and the number of jobs

The subsequent chapter makes it clear that policy makers should not believe that policies of 'easy firing' will boost the economy's capacity to create (net) new jobs. On the basis of the traditional econometric analysis, the OECD concludes that it cannot be shown that cutting job protection will have a statistically significant effect on jobs in the long run, while job losses are rather substantial and wages are much lower in the two years after flexibility enhancing job protection reforms.

Moreover, the OECD also looks at the scenario, where a cut in job protection takes place at the moment the economy is in a downturn concluding that, when job protection reforms are undertaken in a downturn, employment goes down significantly and remains low four years after (see graph).

Estimated cumulated change of business sector employment after a flexibility-enhancing EPL reform



The obvious conclusion that should be drawn is that reforms which reduce job protection put regular workers at risk, given the fact that economic recovery in many OECD economies is still shaky and several economies are already facing too low inflation.Squeezing jobs and wages more may then very well be the final straw to break the economy.

However, rather than drawing this conclusion, the Outlook argues that complementing job protection reforms with policies to decentralise collective bargaining to the company level will give workers the opportunity to engage in concession bargaining. Workers, who otherwise would be fired because of relaxed job protection, can then save their jobs by accepting wage cuts. The key objection that such action will undermine aggregate demand with negative feedback effects on jobs is hidden in a footnote . In the end, the only evidence the OECD can deliver to support its claim is the case of Spain, where in 2012 both job protection as well as collective bargaining were reformed. However, a closer look at the Spanish case reveals that the change in unemployment pattern that followed had more to do with people leaving the labour force and with the gradual loosening of the credit squeeze than with concessional wage bargaining.

EPL reform and precarious jobs

The Employment Outlook shifts the discussion to the argument that protecting regular jobs ends up in employers resorting to different forms of precarious work contracts. The argument is twisted by saying that regular job protection is to blame for all the problems that precarious work contracts bring with them (reduced access to training, 30% lower wage rates for temporary contracts than regular contracts, only partial access to social security).

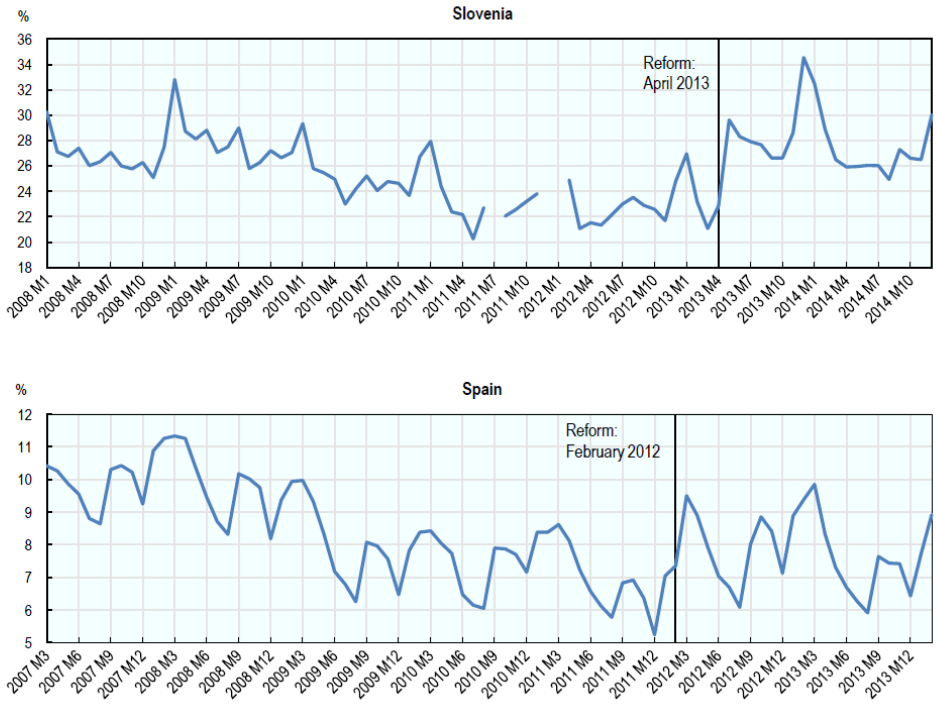
Here, the Outlook uses recent reforms in Spain and Slovenia to show that reducing job protection for regular workers makes employers offer more open ended contracts instead of fixed term ones.

This however has to be taken with a big grain of salt. Indeed, the reality is that the share of open ended contracts in all new contracts in Spain went up from a 7% before the reform to 10% after the reform – which is still relatively low (see second panel graph below). Moreover, if the series are prolonged to include 2014 (which the OECD does for Slovenia but not for Spain), then the share of open ended contracts falls back to its pre reform level of a dismal 5% by mid-2014.

Slovenia, at least at first sight, did have some tangible results. Its share of open ended contracts in new contracts did increase somewhat, from 22% to 28 to 30% after the reform. In Slovenia, however, the labour reform was much more about strengthening the protection for temporary workers than about cutting regular job protection. It prohibited employers from using a series of fixed term contracts to fill in the same job for more than two years, imposed a 20% temporary staff quota per firm and stamped out bogus self-employment by a stricter control on the use of civil contracts and, finally, raised employer social security contributions for those employers using fixed term contracts. It appears that closing the backdoors employers have at their disposal to avoid offering regular contracts is much more efficient in addressing abuses than cutting job protection for regular contracts and making all jobs precarious.

Figure 3.13. **Share of permanent contracts in new contracts in Slovenia and Spain**

Percentages



Notes: The vertical lines indicate the date the labour market reforms came into effect. The Slovenian data exclude groups of 10 Socia Security registrations with the same employers on the same day. Data for July and December 2011 as well as January 2012 wer excluded from the chart, since administrative changes implied a re-registration of a large number of existing contracts.

Source: OECD calculations based on data from Servicio Público de Empleo Estatal (SEPE), Statistični register delovno aktivneg prebivalstva (SRDAP) and Institute of Macroeconomic Analysis and Development (IMAD).

Closing the gender gap in emerging economies

A final chapter analyses the gender gap in emerging economies. While providing a wealth of data and acknowledging the deep and entrenched role of social customs in perpetuating gender inequalities, the chapter however is weak on policy remedies. Essentially, policy options are narrowed down to education for girls. The need to target (young and grown) men, and employers, in policy initiatives is barely mentioned and the potentially effective role of quotas and regulatory requirements is buried at the end of the paper.

Conclusion

The Outlook clearly raises many issues for the TUAC and affiliates to challenge in the months ahead as it provides a range of issues likely to be raised in the Review of the OECD Jobs Strategy. The Economic Policy Working Group meeting in October – will be receiving further report on the process and discuss next steps.