TUAC Comment on the OECD Employment Outlook 2015

Current employment and labour market policies are failing to create more and better jobs

The new issue of the OECD Employment Outlook 2015 (EO 2015) - http://www.oecd.org/els/oecd-employment-outlook-19991266.htm - , the annual assessment of key labour market developments and prospects in OECD countries, is an important reminder regarding both existing labour market and employment challenges as it points to failing policies that need to change.

"The fact that unemployment is predicted to remain unacceptably high, shows that austerity policies and structural reforms that reduce workers' security are failing to support a job-rich recovery and are leaving low-income households and young people scarred – which we clearly see with the crisis in Greece", said TUAC General Secretary John Evans*. "The Employment Outlook provides evidence that the time has come to revisit policies and conduct a reassessment of the 1984 OECD Jobs Strategy. The OECD rightly points to the long-term consequences of the jobs and inequality crisis and now needs to act on it."*

When revisiting the OECD Jobs Strategy the following points and key challenges need to be reflected:

- ✓ the failure of most flexible labour markets to prove their resilience during the crisis;
- ✓ the failure of structural labour market reforms to facilitate the creation of jobs, boost employment and reduce long-term unemployment;
- ✓ the failure to explain the increase in inequality through the skill-biased technological change hypothesis;
- ✓ the issue of increasing inequality impeding growth, investment and mobility;
- ✓ the existence of segmented and dual labour markets within the most flexible regimes;
- ✓ the persistence of long-term unemployment despite increased efforts to implement activation policies.

A more pragmatic debate on minimum wages

TUAC has welcomed the fact that the new Outlook recognises the positive role of minimum wages stating that: "*Minimum wages have become indispensable in order to tackle in-work poverty. That applies in particular to economies where protective labour market institutions have been weakened. However, social protection schemes and in-work benefits need to be complementary to minimum wage increases – not substitutes to one another*". Given the recent increase in inequality, amplified in part by structural labour market reforms, the Employment Outlook reports that 26 out of 34 OECD countries are now having a statutory minimum wage in place.

The new stance of the OECD on minimum wages is also a response to the fact that annual real wage growth has slowed in the OECD area since the onset of the crisis, declining from 1.8% during 2000-07 to 0.5%. However, a closer inspection reveals that what is being referred to as 'slower wage growth' masks real wage declines in countries such as the Czech Republic, Italy, Japan, the Netherlands, Slovenia and the United Kingdom. They have reduced the incomes of many households, constrained their consumption and thus contributed to economic hardship, in particular for those already on low incomes. This in turn has put a further drag on an uneven and weak recovery.

The Employment Outlook emphasizes that minimum wages are a relatively blunt tool for tackling poverty as entire poor households are out of employment, while at the same time many workers may not be able to work a sufficient number of hours to lift them out of poverty. In fact, more people are now in part-time work - up to 20.6% - which reflects a shortage of opportunities for full-time employment. The report points to an over-reliance on low-paid, low-skilled and temporary jobs. In order to reverse this trend and raise living standards for those workers at the bottom of the earnings ladder, the Employment Outlook calls for an appropriately designed minimum wage that is coordinated with the tax/benefit system. However, social protection schemes and in-work benefits also need to be complementary to minimum wage increases – not substitutes to one another.

Unemployment levels remain high

Unemployment across the OECD is not going to change substantially. While it will remain almost unchanged in 16 member states, it is predicted to increase in 5 countries. 14 countries may see a drop of the unemployment rate between 0.1 and 0.3 per cent. This may lead to just a minor reduction of the unemployment rate across the OECD by just 0.1 percent – from 6.9 per cent in 2015 to 6.8 in 2016. The number of people who are out of work – currently at around 42 million – is still 10 million more than before the crisis. And, it is not expected to change much for the better. This challenges the observation that a jobs recovery is becoming more widespread and gaining momentum. According to the OECD findings, progress in jobs recovery will remain slow in 2016. Adding to that, OECD countries are faced with 77% more long-term unemployed people compared to pre-crisis levels.

Young people are suffering most from this situation. To varying degrees, the number of 15-29 year-olds, who are not in employment, education or training (the so-called NEETS), is close to 20 per cent on average in OECD countries. "*Young people are over-represented in temporary and other forms of precarious work, which do not provide a pathway to permanent jobs or a source of skills and training for the future. There is clear evidence that youth unemployment has lasting scarring effects on young people at all education levels. This is a tragic waste of potential and undermines trust in our economic and political systems. It is essential to tackle youth unemployment now, and prevent a situation where a whole generation sees its future perspectives permanently diminished by the crisis*", said Evans.

Reducing income inequality – The need to promote collective bargaining

The Employment Outlook 2015 also assesses the potential role of skills in reducing wage inequality. It finds that economies that make better use of the skills of their workforce tend to have lower wage inequality. However, the report fails to provide evidence suggesting that wage inequality can be addressed extensively by investing more in skills and workforce development. Even though they have been weakened, labour market institutions, in particular collective bargaining, continue to play a major role regarding wage developments and inequality.

The TUAC therefore calls for a shift towards a balanced assessment of the labour market situation and related policies. There is a strong need for a broader policy package including collective bargaining to fight poverty and reduce income inequalities and bring people back to work.

"Even though they have been weakened, labour market institutions, in particular collective bargaining, continue to play a major role regarding wage developments and inequality. There is a pressing need for a broader policy package including collective bargaining to fight poverty and reduce income inequalities and bring people back to work. Activation policies alone are not going to work if there are four up to six times more job seekers than vacancies", said Evans.

In doing so, TUAC recommends the following policies to reduce inequalities in labour markets:

POLICY CHECKLIST TOWARDS REDUCING INEQUALITY

Urgent measures are needed to address rising income inequality. To achieve this, OECD governments must:

› Address the growth of in-work poverty through establishment of well-set minimum wages in the light of national contexts.

› Return to a policy of full employment whereby workers are not at a disadvantage in seeking wages that reflect productivity growth.

› Strengthen the coverage of collective bargaining by social partners.

› Undertake corporate governance reforms to curtail the excesses of top income remuneration and encourage the setting of limits of top pay to median incomes in the private sector.

› Ensure access for all to quality education and training systems with adequate infrastructures and tools for their provision, in particular during times of crisis.

› Restore progressivity in the tax system and ensure effective taxation of international corporations.

› Evaluate economic performance by wider criteria than GDP per head.

› Promote the OECD Guidelines for Multinational Enterprises, and apply them to global supply chains, and step up actions aimed at improving the National Contact Points, including by increasing the regularity of country peer reviews.