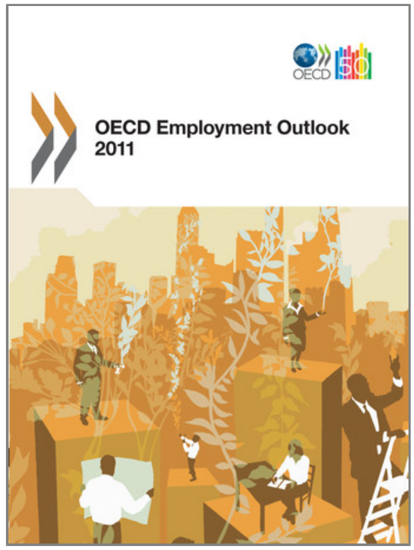
OECD *Multilingual Summaries*

OECD Employment Outlook 2011

Summary in English



- OECD *Employment Outlook* is the OECD’s annual report on the state of labour markets and employment across the OECD area.
- The 2011 edition provides an overview of labour market conditions in the wake of the financial and economic crisis. While overall unemployment has fallen from its recessionary peak, it is still high in many countries, especially for vulnerable groups such as disadvantaged youth. Despite fiscal pressures, it is crucial to maintain adequate measures to tackle high unemployment.
- The 2008-09 recession served a tough “stress test” to the social safety-net in OECD countries. The *Employment Outlook* identifies potentially important gaps in income support for the unemployed. Among the lessons emerging from the crisis is that there may be a good case to temporarily raise the maximum duration of unemployment benefits during a deep recession, especially in countries where the normal duration of these benefits is relatively low and access of the long-term unemployed to “last-resort” benefits is limited.
- The 2011 edition also analyses social protection programmes in emerging economies and how they can be designed so as to avoid undermining work incentives. An in-depth assessment of unemployment insurance in Brazil, cash transfers in South Africa and health protection in Mexico demonstrates that extending social protection in emerging economies can, if well-designed, also contribute to improved labour market outcomes.
- The 2011 edition shows that many workers in OECD countries experience large fluctuations in labour earnings from one year to the next. Large drops in individual earnings increase the risk of household poverty and financial stress, but progressive income taxation and generous unemployment benefits tend to mitigate the effects of earnings volatility on household welfare. Employment protection can dampen the short-term impact of macroeconomic shocks on employment and earnings. However, strict dismissal regulations are often associated with labour market duality, requiring policy makers to strike a balance between competing effects of dismissal regulations.
- The *Employment Outlook* shows that about one in four OECD workers are over-qualified for their jobs, while just over one in five are under-qualified. Qualifications mismatch need not imply a genuine mismatch between skills possessed by workers and those required in the labour market. Nonetheless, about 40% of over-qualified workers feel that they have the skills to cope with more demanding tasks at work. These and other novel empirical findings provide the basis for a better understanding of the role that education systems, lifelong learning institutions and labour market policies can play to ensure that workers acquire the skills needed on the labour market and that these skills are matched to the most appropriate jobs.

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UNFINISHED BUSINESS: INVESTING IN YOUTH

Promoting stronger job growth is essential but broader measures to tackle structural labour market problems are also required...

Promoting job rich economic growth must be the key response to dealing with long-term unemployment. However, it may not be sufficient alone to tackle the legacy of lost opportunities that occurred prior to the crisis when stronger economic conditions failed to durably reduce inequalities in both income and access to well-paid and productive jobs. Indeed, as documented in the OECD’s forthcoming sequel to its 2008 report on Growing Unequal?, some of these inequalities even deepened further.

Some young people are at high risk of becoming disconnected from the labour market and this risk was accentuated by the crisis...

In particular, more needs to be done to durably improve labour market outcomes for youth who were hit disproportionately hard by the recession (as documented in Chapter 1 of this volume). In the first quarter of 2011, the unemployment rate for young people (aged 15 to 24) was 17.4% in the OECD area compared with 7% for adults (aged 25 and over).

But these data on youth unemployment paint only part of the picture of the difficulties young people are facing on the labour market. More generally, youth who are neither in employment nor in education or training (the so-called NEET group) are a group at high risk of marginalisation and exclusion from the labour market, especially the longer they remain outside the world of work. In the 4th quarter of 2010, this group accounted for 12.6% of all youth aged 15-24 in the 30 OECD countries for which data are available, up from 10.6% in 2008. This represents 22.3 million young people, 14.6 million of whom were inactive and not studying, and 7.7 million of whom were unemployed.

In the context of a weak jobs recovery, a significant and growing proportion of youth, even among those who would have found jobs in good times, are at risk of prolonged unemployment or inactivity, with potentially long-term negative consequences for their careers, or so-called “scarring effects”. These risks include long-term difficulty finding employment and persistent pay differentials with their peers. Young people leaving school in the coming years are more likely to struggle to find work than previous generations.

Tackling youth exclusion from the labour market is a well-studied problem but with no easy solutions...

The problem of poor labour market outcomes for some groups of young people is nothing new and has been a preoccupation for governments for many years. Indeed, youth issues have been a recurring theme of the OECD’s reflections on employment policy over the past 50 years.

What has become clear from this work is that there are no quick fixes to ensuring that all young people can get off to a good start in the labour market. Some countries are doing a better job than others but they all face the challenge of dealing with a hard-core of youth who risk being excluded from the labour market. Stronger job creation is a key part of the solution but will not help all youth unless accompanied by other measures. The OECD’s report in 2010, Off to a Good Start? Jobs for Youth, which summarised the key lessons from 16 country reviews, has highlighted a wealth of good practices to help youth to get a first foothold on the career ladder.

Essentially, a two-pronged approach is required to tackle, on the one hand, the underlying structural barriers to a better insertion of youth in the labour market and, on the other hand, the crisis-driven rise in the number of youth who are not in work or in school.

Measures dealing with structural problems must be taken…

First, policies must be put in place to overcome the long-term failure to give all youth a better start in the labour market. To start with, “preventative” measures must be taken to improve early childhood education and care, particularly for children from low-income families and disadvantaged backgrounds. To be fully effective, these measures need to be sustained through the period of compulsory schooling. This, in turn, will help minimise school drop outs.

These measures need to be complemented by efforts to achieve a better match between the skills youth acquire at school and those needed in the labour market. As documented in Chapter 4 in this volume, a considerable proportion of young workers are over-qualified for their jobs, although this proportion tends to decline with age. Reducing skills mismatch requires greater responsiveness of education systems to changing skill needs and a strengthening of educational choice through, for example, better opportunities for vocational education and training.

Finally, barriers to employment of youth also need to be removed. In particular, highly segmented labour markets, resulting from overly strict regulations on permanent employment contracts, can mean that short-term entry jobs fail to act as a stepping stone to more stable jobs and become instead dead-ends. If set too high relative to average wages, minimum wages may also act as a disincentive for employers to hiring low skilled and inexperienced young people. Therefore, some countries have adopted lower sub-minimum wage rates for youth.

And despite fiscal pressures, it is crucial to maintain adequate resources for cost-effective measures to tackle the large rise in youth unemployment...

The second line of policy action needs to be directed at tackling the rise in youth joblessness that took place during the recent economic and financial crisis. As many countries are facing mounting pressures for fiscal consolidation, it is important that governments give priority to cost-effective interventions to improve youth labour market outcomes. Thus, policies should focus on the most disadvantaged, including the long term unemployed and those at high risk of exclusion.

Job-search assistance programmes have been found to be the most cost-effective early intervention for young people who are assessed as ready to work. Temporary extensions of the social safety net can also be vital to prevent poverty among unemployed youth. As documented in Chapter 3 in this volume, earnings volatility is particularly high among younger workers. Some countries have also introduced wage subsidies to encourage employers to hire low-skilled unemployed youth. However, in order to avoid the well-known deadweight effects entrenched in these subsidies (i.e. hirings that would have taken place without subsidies), these subsidies should be adequately targeted, for example on small and medium-size enterprises or on apprenticeship contracts. There may also be a need in many countries to expand opportunities for “study and work” programmes such as apprenticeships and other dual vocational education and training programmes.

Finally, more intensive, remedial, assistance should be targeted on those youth at greatest risk of social exclusion. While back-to-the-classroom strategies might prove counterproductive for them, training programmes taught outside traditional schools, combined with regular exposure to work experience and adult mentoring, are often better strategies for these disconnected young people.

Investing in youth must be a key policy objective for achieving better long-term economic and social outcomes for all.

Investing in youth and giving them a better start in the world of work should be a key policy objective. Otherwise, there is a high risk of persistence or growth in the hard-core group of youth who are left behind, facing poor employment and earnings prospects. In a context of ageing populations, OECD economies and societies simply cannot afford the large economic and social costs that such an outcome would entail.