

Chapter 2

Labour Market Performance since 1994 and Future Challenges

How has labour market performance evolved since the OECD Jobs Strategy was first promulgated and what are the implications of this evolution for setting policy priorities? Since 1994, employment rates have increased in the majority of OECD countries, reflecting both a cut in unemployment rates and higher participation rates. Notwithstanding the favourable developments in most member countries, persistently high unemployment remains a serious problem in some countries. Furthermore, progress has been uneven across the working-age population, being particularly limited for youth and less skilled workers. In some countries, the incidence of “working poverty” remains stubbornly high, showing little sign of declining even in periods of high employment growth. Further substantial increases in employment rates will be required to prevent population ageing from becoming a major drag on living standards.

This chapter provides a broad-brush picture of labour market performance since 1994 and puts it into the context of both earlier trends and future challenges relating to the ageing of populations in member countries. It is organised in four main parts: aggregate labour market performance, labour market performance for particular groups, trends in social and working conditions, and future challenges.

1. Aggregate labour market performance

Since 1994, labour market performance in the OECD area as a whole has improved: the unemployment rate has come down, the employment rate has gone up and the participation rate has risen (Table 2.1). For unemployment, recent trends constitute a reversal of the trend rise in the joblessness rate since the early 1970s, even if the number of unemployed persons in the OECD area at present (around 37 millions) is almost the same as it was ten years ago. An increase in employment by nearly 50 million persons over the same period has been marginally higher than the expansion of the population of working age, but sufficient to push up the area-wide employment rate to a historical high. Similarly, the increase of the aggregate participation rate in the OECD area that has been observed since 1984 has accelerated slightly over the 1994-2004 period. As a result of these developments, labour utilisation – as measured by the number of hours worked per person of working age – has increased after 1994, in contrast to the evolution of the previous decade.

The reduction in the area-wide unemployment rate masks significant differences across member countries (Figure 2.1, Panel A):¹

- Very sharp cuts in unemployment rates were recorded in Ireland,² Spain and Finland, all of which had very high joblessness rates in the mid-1990s. In contrast, the three largest European economies reported no or little progress with Italy and France being marginally more successful in recent years than Germany.
- Significant cuts in unemployment rates have also taken place in a few English-speaking countries (Australia, New Zealand and the United Kingdom), in the Nordic countries (Denmark, Sweden), the Netherlands and Hungary. In some of these countries, unemployment rates have been halved over the past ten years and have reached levels not seen since the 1970s.
- Sharp increases in the unemployment rate have been confined to some central and eastern European countries, from already very high levels (Poland, the Slovak Republic) or from a relatively low level (the Czech Republic) in the mid-1990s.

For the countries where such estimates are available, structural unemployment rates³ paint a similar picture of the evolution of joblessness as unadjusted rates (Figure 2.1, Panel B).⁴

Employment rates have increased in almost all OECD countries since 1994 (Figure 2.2, Panel A). The gains in employment/population ratios have been particularly striking, at

Table 2.1. Labour market performance in the OECD area, 1994-2004

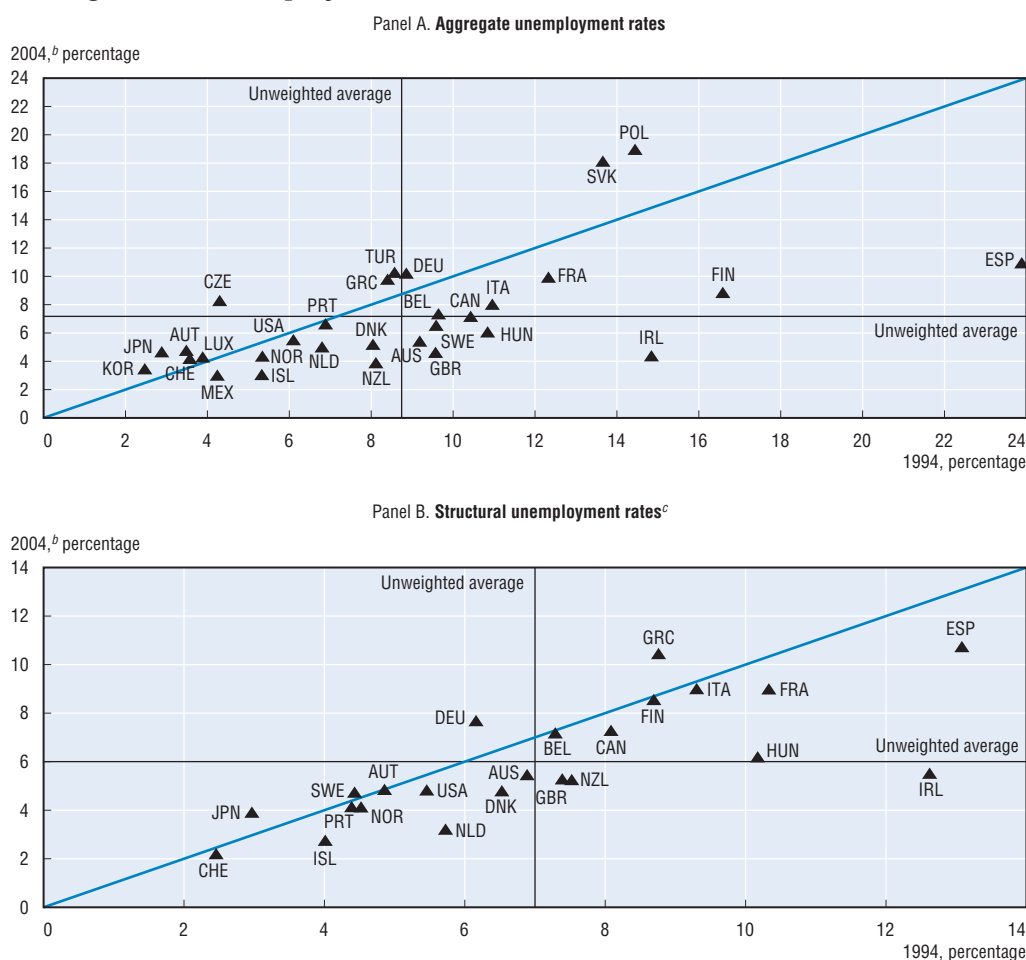
	1994	2004	Change 1994-2004
	[1]	[2]	[2]-[1]
Unemployment (thousands)	38 300	37 409	-891
Employment (thousands)	465 170	514 777	49 607
Labour force (thousands)	503 451	552 027	48 576
Unemployment rate	7.6	6.8	-0.8
Structural unemployment rate ^a	6.9	6.0	-0.9
Employment rate	65.3	66.5	1.2
Labour utilisation, annual hours worked per person of working age ^b	1 165	1 178	1.1%

a) Unweighted average structural unemployment rate, excluding the Czech Republic, Hungary, Korea, Luxembourg, Mexico, Poland, the Slovak Republic and Turkey, calculated by using a Kalman filter approach that embodies a reduced-form Phillips curve (see Richardson *et al.*, 2000).

b) Unweighted average, excluding Luxembourg, Poland and Turkey.

Source: OECD database on Labour Force Statistics.

Statlink: <http://dx.doi.org/10.1787/463856714423>

Figure 2.1. Unemployment rates in OECD countries, 1994 and 2004^a

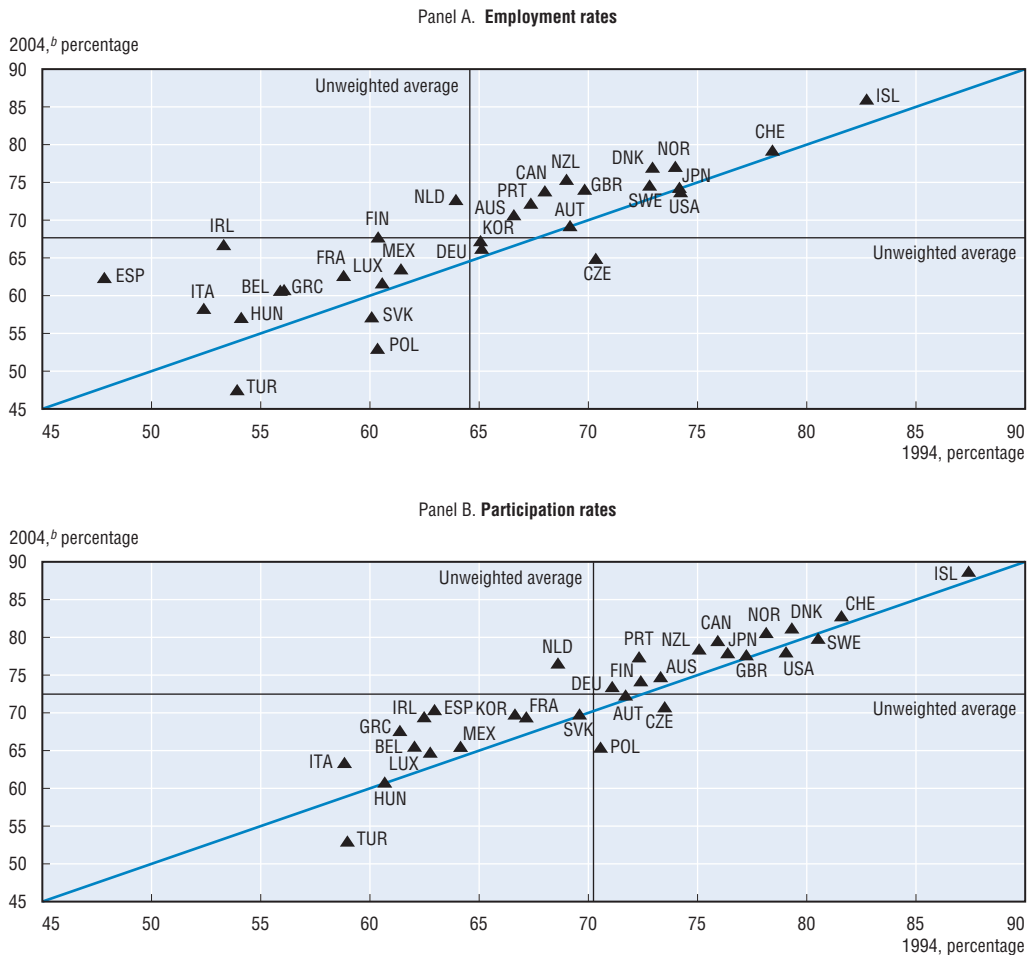
a) The 1994 and 2004 values shown are not fully comparable for some countries because statistical methods changed between these two years. See the Statistical Annex of this publication for a discussion of recent historical breaks in Labour Force Statistics.

b) 2003 for Austria.

c) Structural unemployment rates are calculated by using a Kalman filter approach that embodies a reduced-form Phillips curve (see Richardson *et al.*, 2000).

Source: OECD database on Labour Force Statistics; Economic Outlook database.

Statlink: <http://dx.doi.org/10.1787/688570517526>

Figure 2.2. **Employment and participation rates in OECD countries, 1994 and 2004^a**

a) The 1994 and 2004 values shown are not fully comparable for some countries because statistical methods changed between these two years. See the Statistical Annex of this publication for a discussion of recent historical breaks in Labour Force Statistics.

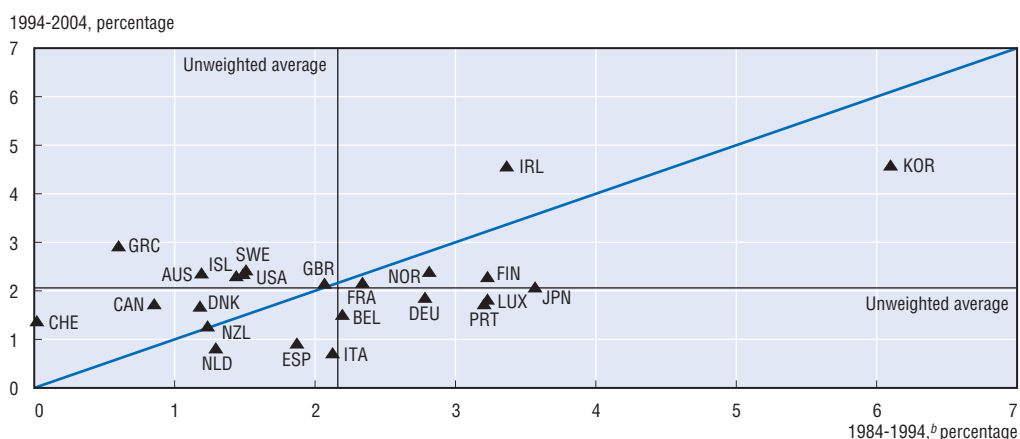
b) 2003 for Austria.

Source: OECD database on Labour Force Statistics.

Statlink: <http://dx.doi.org/10.1787/643307574216>

around 10 percentage points, in Spain, Ireland and the Netherlands, reflecting both the fall in unemployment rates and increases in labour force participation rates. Employment rates have also risen markedly in some English-speaking countries (Australia, New Zealand and the United Kingdom), mostly mirroring the drop in joblessness in these countries, and, from a relatively low level, in Belgium, France, Italy and Portugal. By contrast, the share of the working-age population at work dropped in some eastern European countries and Turkey. Similar patterns across countries are observed for the aggregate participation rates (Figure 2.2, Panel B). The only group of countries to experience a significant drop of actual participation was in eastern Europe and Turkey.

Job creation in most member countries was accompanied by different trends in the growth of labour productivity as measured by output and hours worked (Figure 2.3). In the United States, growth in employment over the 1994-2004 period took place against the background of higher productivity growth.⁵ A few countries, like Australia and Ireland,

Figure 2.3. Labour productivity^a growth in OECD countries, 1984-2004

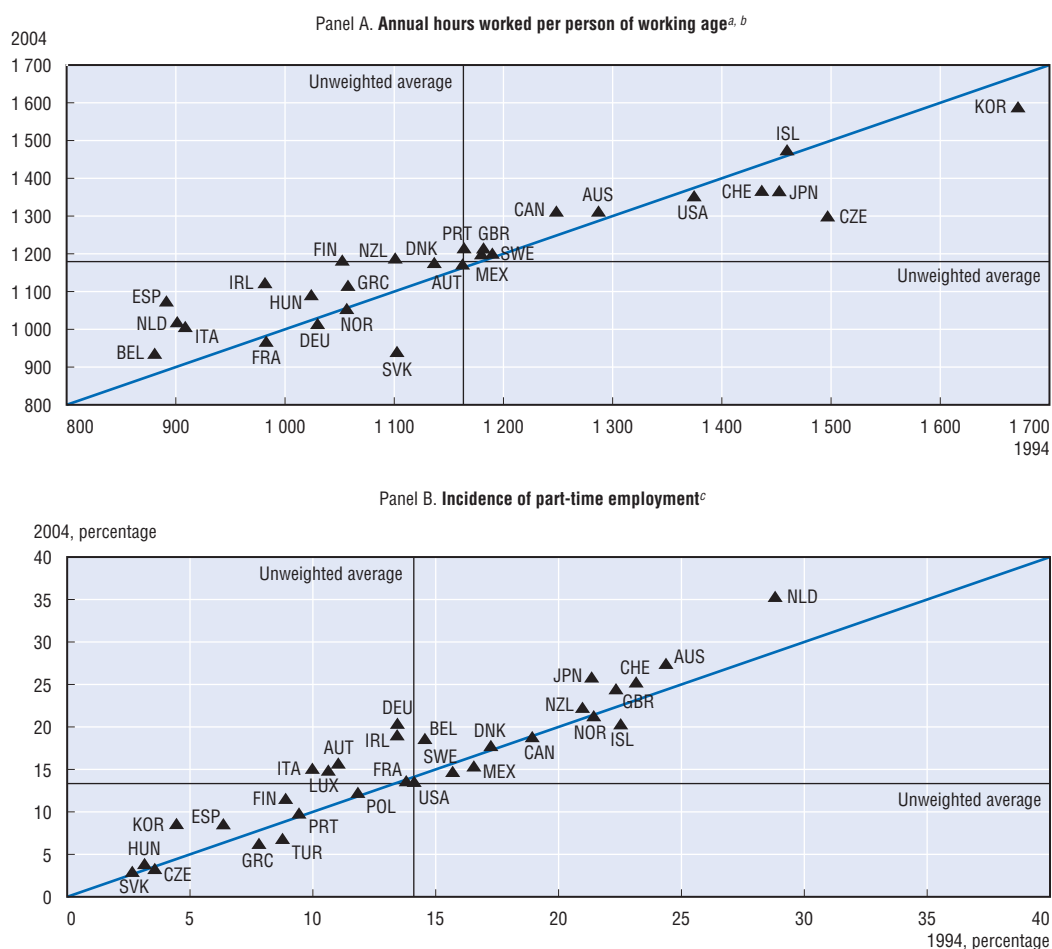
a) GDP per hour worked.

b) 1986-1994 for Portugal.

Source: OECD Productivity database.

Statlink: <http://dx.doi.org/10.1787/647201877576>

Figure 2.4. Labour utilisation in OECD countries, 1994 and 2004



a) 15-64 or 16-64 age group.

b) 1995 and 2004 for Austria.

c) 1994 and 2002 for Iceland, 1995 and 2004 for Austria, Hungary and Mexico, 1997 and 2004 for Poland.

Source: OECD database on Labour Force Statistics.

Statlink: <http://dx.doi.org/10.1787/835013006114>

combined stronger productivity growth performance and stronger job creation. However, in several countries an improved employment record went hand in hand with a marked slow-down in the growth of output. Such “productivity-poor” growth has been most visible in Italy and Spain, with productivity growth falling to very low levels. Overall, since 1994, productivity growth increased in the United States while it declined in most European countries and, as a result, productivity growth in the United States, which was below the OECD average in the earlier period, has been above average since 1994.

Higher employment has not always resulted in an increase in labour utilisation, i.e. hours worked per person of working age. While labour utilisation has increased in a majority of countries since 1994, it has declined significantly in some continental European countries (France, Germany, Switzerland), eastern European countries (the Slovak and Czech Republics), Japan, Korea and the United States (Figure 2.4, Panel A). These drops partly reflect a reduction in virtually all countries of the number of hours worked per employed person (Table F in the Statistical Annex). An important factor behind the fall in the number of hours worked per employed person is the sustained increase in the incidence of part-time work during the past decade (Figure 2.4, Panel B), in particular in Belgium, Germany, Ireland, Italy, Japan, Korea and the Netherlands.

2. Labour market performance for particular groups

Not all segments of the working-age population benefited equally from the general improvement in labour market performance. Some groups – youth, women, older, less skilled workers and workers in disadvantaged regions – have always had more difficulties in the job market than prime-age men. Developments over the 1994-2004 period for these groups have been contrasting (see also OECD, 2006a, Tables W.2.1-4):

- Female participation relative to that of prime-age men (Figure 2.5) kept increasing during the past decade, though by a smaller extent than the strong gains registered during the previous decade. Exceptions to this trend concern Turkey, where female participation fell from a very low level, and conversely some eastern European countries and some Nordic countries, where female participation fell or stabilised, after having reached already very high levels ten years ago. At the same time, the prime-age female unemployment rate fell in most countries, though generally not more than that of prime-age men (Figure 2.6). Therefore, the employment rate for women has increased significantly in most member countries.
- In most countries, youth (those aged 15 or 16 to 24) relative participation has kept declining, reflecting mainly young people spending a longer time in education, though this evolution was less marked during the past decade compared with the previous one (Figure 2.5). On average, the youth unemployment rate is around three times as high as for prime-age men. However, when calculated as a proportion of the youth population (instead of labour force), the ratio of the youth unemployment rate relative to prime-age men is around 1.5 only. Although youth unemployment rates have tended to fall somewhat in absolute terms, they rose relative to prime-age male unemployment rates on average during the past decade (Figure 2.6). The employment-population ratios for this age group have fallen overall, but with notable exceptions in a few countries (Iceland, Ireland, Finland and Spain).

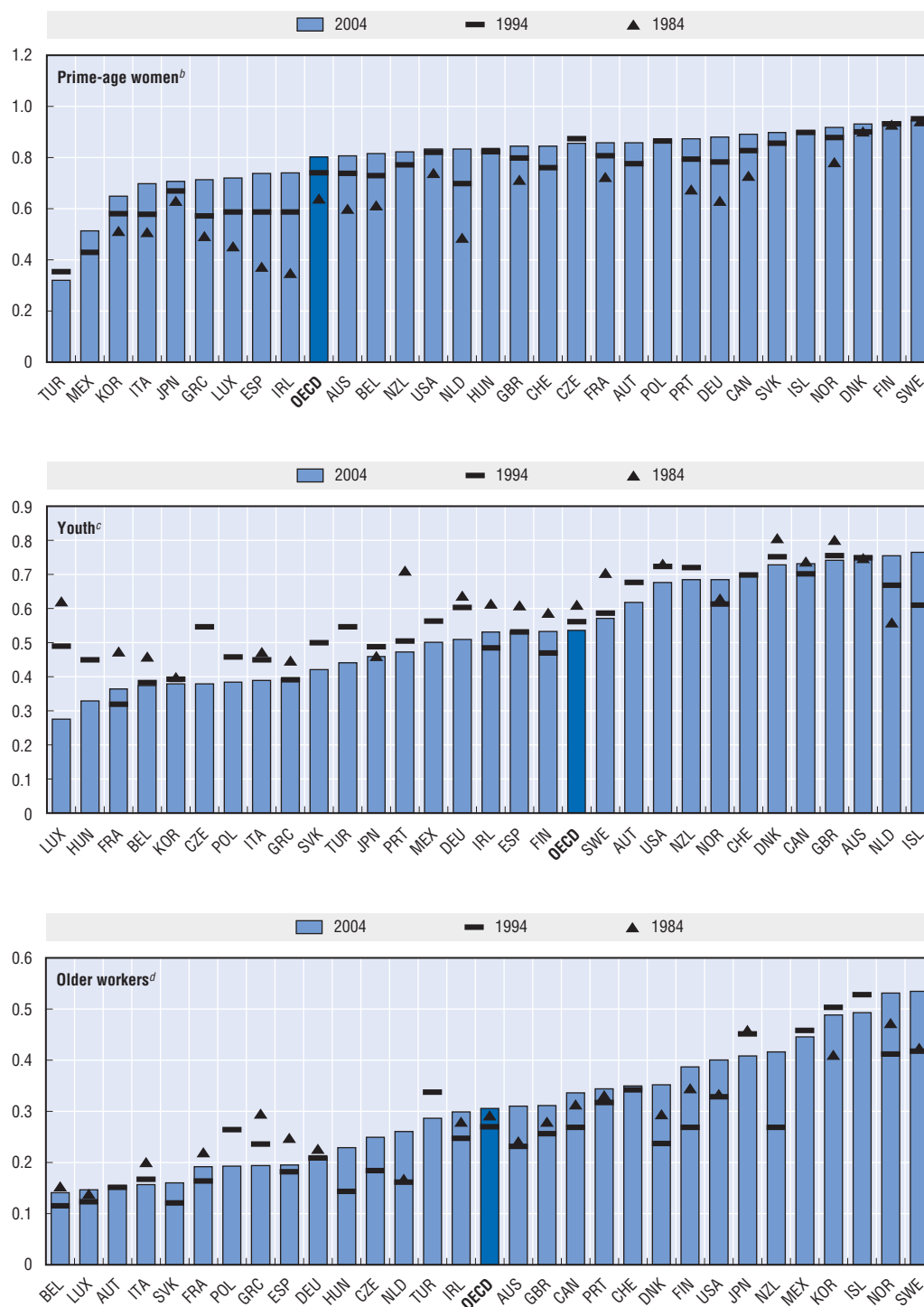
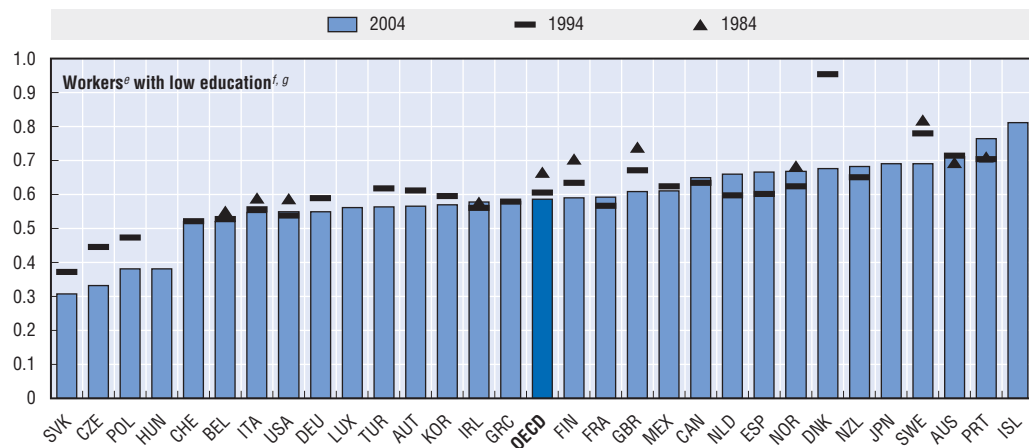
Figure 2.5. **Relative participation rates for particular groups, 1984-2004^a**

Figure 2.5. **Relative participation rates for particular groups, 1984-2004^a** (cont.)

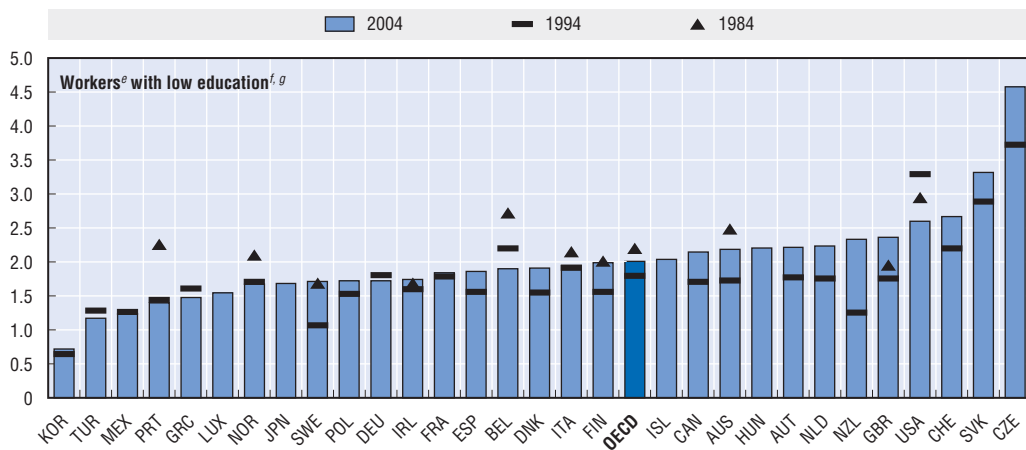
- a) Relative to prime-age male participation rates (25-54 age group). The 1984, 1994 and 2004 values shown are not fully comparable for some countries because statistical methods changed between these three years. See the Statistical Annex of this publication for a discussion of recent historical breaks in Labour Force Statistics.
- b) 25-54 age group.
- c) 15-24 or 16-24 age group.
- d) 55 and over age group, except 55-74 for Finland, Hungary, Iceland, Norway and Sweden.
- e) 15-64 age group.
- f) Less than upper secondary level.
- g) 1995 for France, Korea, Mexico, Poland, the Slovak Republic and the United Kingdom, 2002 for Iceland, Italy and the Netherlands.

Source: OECD database on Labour Force Statistics.

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- A notable feature of labour market performance trends over the 1994-2004 period is the termination or even reversal of the previous trend decline in labour force participation of older workers (those aged 55 and over) in most countries. The participation rate, both in absolute terms and relative to that of prime-age men, has risen most strongly in the Nordic countries (Denmark, Finland, Norway, Sweden) and in New Zealand, while significant declines have been confined to Poland, Greece, Turkey and Japan (Figure 2.5). At the same time, however, the unemployment rate for this age group has remained broadly unchanged on average, even if a number of countries have recorded an increased incidence of joblessness (Figure 2.6). As a result, the employment rate for the 55-to-64 year olds has risen in most member countries. Nevertheless, in most countries, employment rates for this group remain low vis-à-vis what is needed in order to meet the challenges of population ageing.
- Participation of less-educated workers remains substantially lower than average and has not increased relative to that of prime-age men during the past decades (Figure 2.5). Increases have been recorded, however, since 1994 in several OECD countries, including Canada, France, the Netherlands, Portugal and Spain. Overall, the unemployment rate of less-educated workers remains twice as high as for prime-age men (Figure 2.6). It has stabilised after 1994, after having increased during the previous period, though by a lesser extent than for prime-age men.

Figure 2.6. Relative unemployment rates for particular groups, 1984-2004^a

Figure 2.6. **Relative unemployment rates for particular groups, 1984-2004^a** (cont.)

- a) Relative to prime-age male unemployment rates (25-54 age group). The 1984, 1994 and 2004 values shown are not fully comparable for some countries because statistical methods changed between these three years. See the Statistical Annex of this publication for a discussion of recent historical breaks in Labour Force Statistics.
- b) 25-54 age group.
- c) 15-24 or 16-24 age group.
- d) 55 and over age group, except 55-74 for Finland, Hungary, Iceland, Norway and Sweden.
- e) 15-64 age group.
- f) Less than upper secondary level.
- g) 1995 for France, Korea, Mexico, Poland, the Slovak Republic and the United Kingdom, 2002 for Iceland, Italy and the Netherlands.

Source: OECD database on Labour Force Statistics.

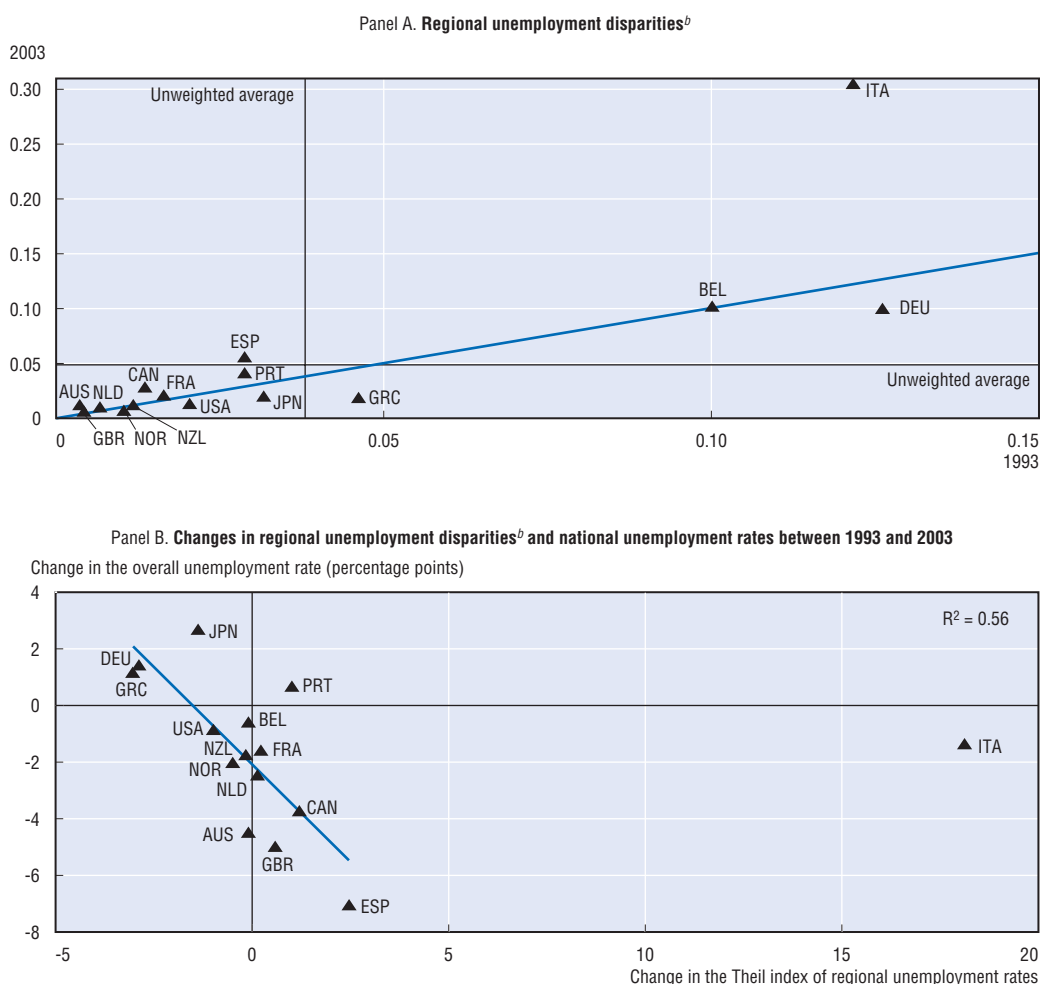
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- Large cross-regional disparities of unemployment persist, especially in countries where national unemployment rates remain particularly high, like Belgium, Germany and Italy (Figure 2.7, Panel A). Between 1993 and 2003, there was some tendency for regional unemployment disparities to increase in the countries where labour market performance improved the most (Figure 2.7, Panel B).

3. Trends in income distribution and working conditions since 1994

Developments in the distribution of income have been uneven over the past decade:

- Since 1994, gross earnings inequality – measured over the employed population – has increased on average in OECD countries for which data are available (Figure 2.8). Earnings inequality had already showed a tendency to increase in the previous decade, but rose at an accelerated pace in the most recent period. This occurred in countries where labour market performance improved considerably (Australia, the Netherlands), as well as in countries where it deteriorated (the Czech Republic, Germany, Korea, and Poland). Gross earnings inequality further increased in countries where it was already high (Hungary and the United States). However, large reductions of gross earnings inequality were also reported in countries where labour market performance improved considerably, such as Ireland and Spain. At first glance, it is therefore impossible to identify a general relationship between trends in gross earnings inequality and labour market performance (see Chapter 5).
- The trend increase in household⁶ inequality at the level of disposable income⁶ observed prior to 1994 was generally arrested subsequently (Figure 2.9, Panel A). Overall, household inequality changed relatively little during the past decade, except in the

Figure 2.7. **Regional unemployment disparities in 1993 and 2003^a**

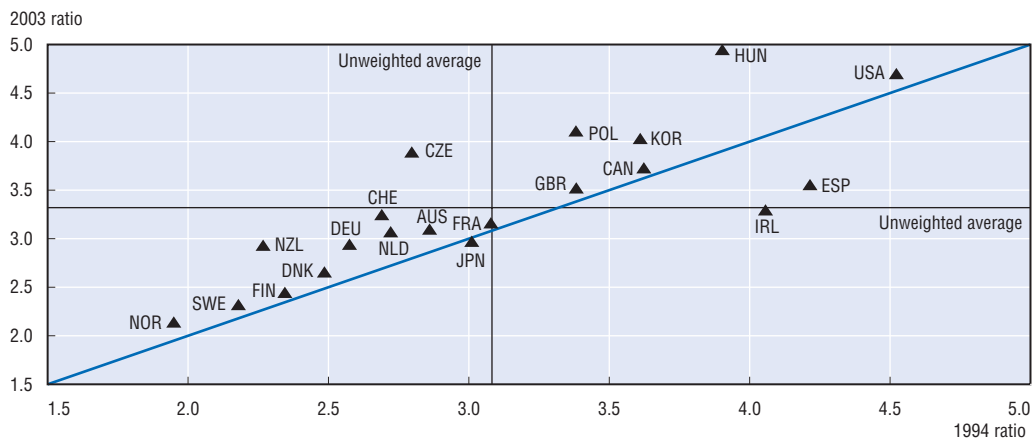
- a) 1990 and 2000 for Japan, Korea, New Zealand and Switzerland.
 b) As measured by the Theil index of regional unemployment rates.

Source: OECD (2005), *OECD Employment Outlook*, Chapter 2, Paris.

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Czech Republic, Finland, Japan, Mexico and Sweden. Thus, the increase in gross earnings inequality observed after 1994 may have been more than offset by the redistributive impact resulting from the employment gains achieved during this period, while redistribution through taxes and transfers has declined in many countries (as discussed in Chapter 5).

- Relative poverty rates – that is, the proportion of the population with income below 50% of the current median income – have risen marginally since 1994 (Figure 2.9, Panel B).⁷ Large increases were reported both in countries where labour market performance improved markedly and average income grew significantly (e.g. Ireland), as well as in other countries (Sweden). On the other hand, relative poverty remained more or less unchanged in countries where labour market performance improved (e.g. in the United Kingdom and the United States). In the latter country, relative poverty rates remain high by OECD standards.

Figure 2.8. **Gross earnings inequality^a in 1994 and 2003^b**

a) As measured by the ratio of the 9th to 1st decile earnings, full-year, full-time workers.

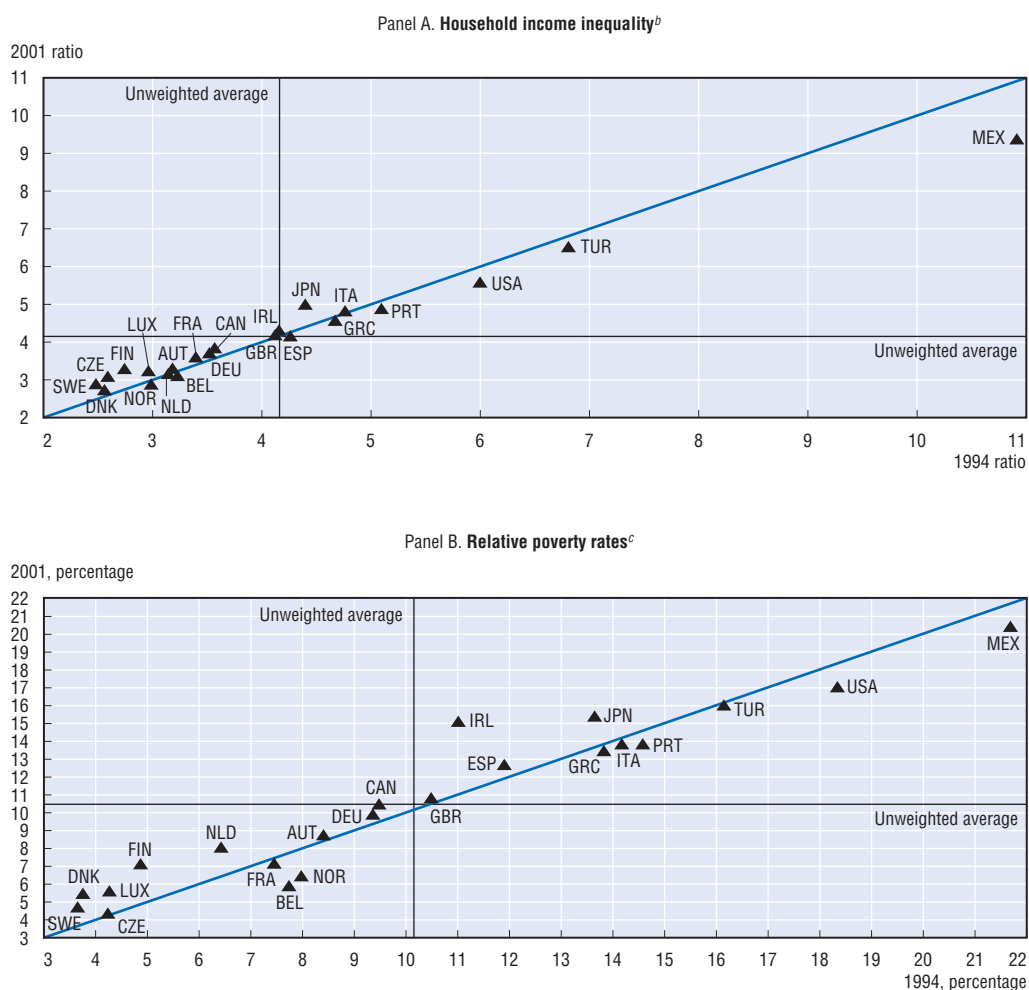
b) 1994 and 1999 for the Netherlands, 1994 and 2000 for Hungary and Ireland, 1994 and 2002 for France, Germany, Korea and Poland, 1995 and 2002 for Spain, 1996 and 2003 for the Czech Republic and Denmark, 1997 and 2002 for Norway, 1997 and 2003 for Canada.

Source: OECD Earnings database.

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There have also been contrasting developments with respect to involuntary part-time work, temporary work, job tenure and in-work poverty over the same period (Figure 2.10):

- In contrast with earlier trends, the incidence of involuntary part-time work declined slightly during the past decade, though evolutions were contrasting across OECD members. Involuntary part-time work increased most in southern European countries and Japan.
- On average, temporary employment has increased slightly in countries for which data are available and temporary employment has a legal status. It increased significantly in only a few countries, *e.g.* Belgium, Italy, the Netherlands and Portugal, while it declined markedly in Ireland, followed by Spain (from a very high level), Turkey and Iceland. In a large majority of the countries for which data are available, temporary employment remains largely involuntary, with more than half of the workers indicating that they would prefer permanent jobs (Chapter 5).
- Job tenure increased on average during the past decade, especially in many Continental European countries (Belgium, France, Germany, Luxemburg, the Netherlands, Sweden and Switzerland) and eastern European countries. It fell noticeably in Ireland. In most countries, however, the rise in average job tenure reflects contrasting trends for young workers and more senior ones: average tenure of workers aged 15-34 decreased significantly in all countries but the Netherlands and Spain, while that of workers aged 35-64 increased substantially (Chapter 5).
- There has been a persistent increase of the proportion of working poor⁸ in the total population after 1994 in the countries where such data are available. But, on average for the OECD, the incidence of working poverty has increased much more modestly after 1994 than during the previous decade. However, half of the countries for which data are available have reported increasing proportions of working poor after 1994, sometimes by a significant extent, such as in the Netherlands, Ireland and the United States (in the latter country from already high levels).

Figure 2.9. Household income inequality and relative poverty in 1994 and 2001^a

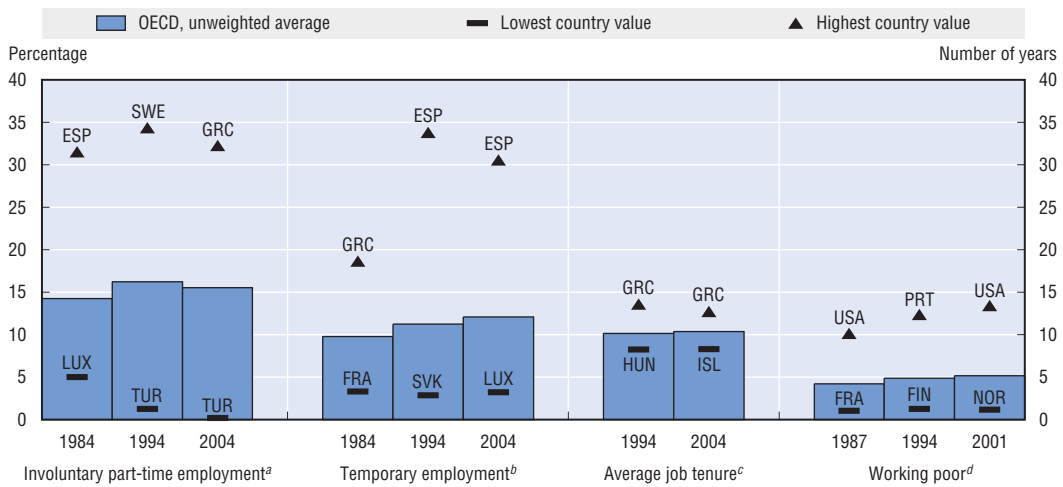
- a) 1994 and 1999 for Austria, 1994 and 2000 for France and Japan, 1994 and 2002 for Mexico and Turkey, 1995 and 2000 for Canada and Norway, 1995 and 2001 for Belgium, Finland, Italy, Portugal and Sweden, 1996 and 2002 for the Czech Republic.
- b) As measured by the ratio of the 9th to 1st decile earnings of equivalised disposable income (i.e. household income, after taxes and transfers, that is adjusted for the number of persons in the household).
- c) Calculated as the proportion of the population with equivalised disposable income below 50% of the current median income.

Source: Förster and Mira d'Ercole (2005).

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Overall, the data reviewed above (see also OECD, 2006a, Table W.2.5) point to diverse results across countries and indicators in terms of recent trends in either income distribution and poverty or a range of indicators of job quality. Chapter 5 examines in some detail the extent to which such trends are associated with patterns in the “quantity” of jobs, as well as underlying policy settings which shape income distribution, poverty and job quality.

Figure 2.10. Trends in job quality



a) Share of involuntary part-time employment among part-time employment (left-side scale).

b) Temporary employment as a percentage of total employment (left-side scale).

c) Average years of job tenure with the current employer (right-side scale).

d) Proportion of the population with equivalised disposable income below 50% of the current median income and living in a household containing at least one worker (left-side scale).

Source: OECD database on Labour Force Statistics; Luxembourg Income Study (LIS); and European Community Household Panel (ECHP).

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4. The current situation and future challenges

Notwithstanding the improvements along the various dimensions of labour market performance in the ten years to 2004, continued signs of weakness were evident for a number of countries at the end of the period:

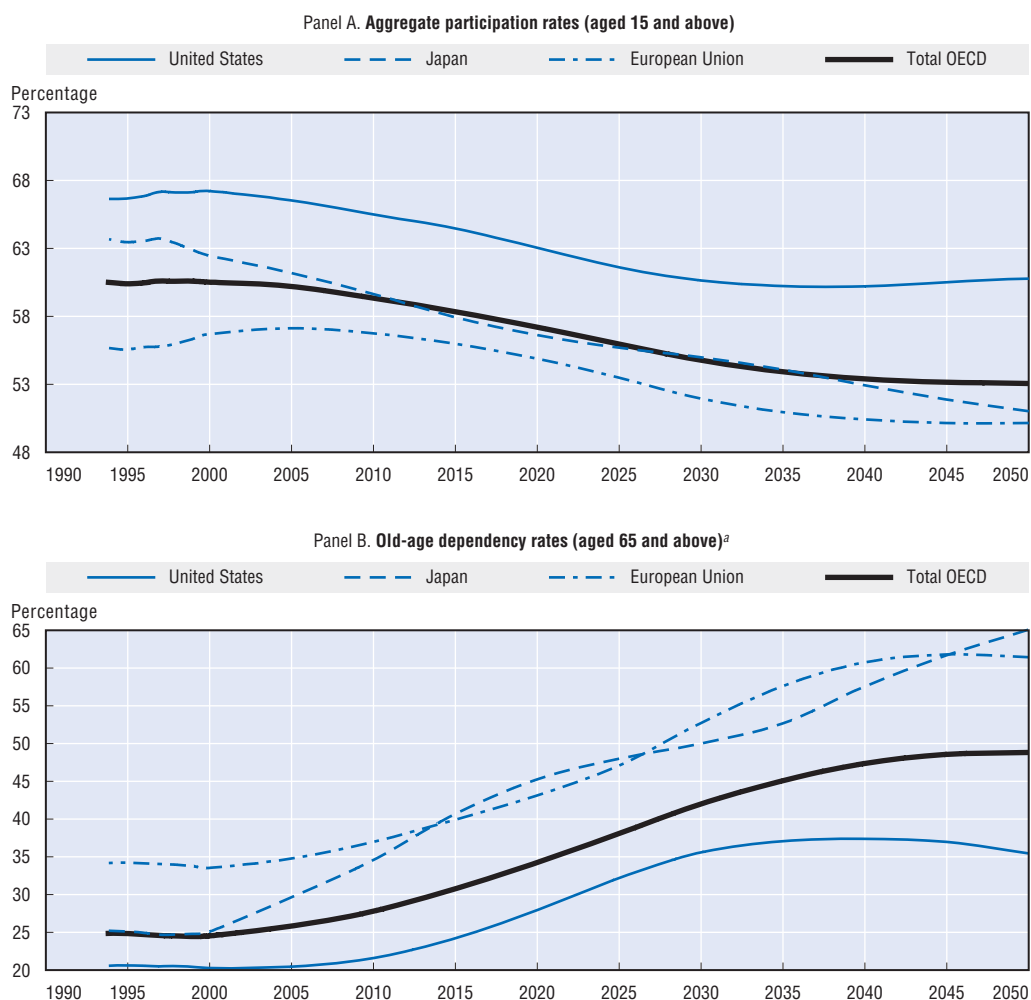
- High unemployment rates, exceeding 8%, in the large continental European countries, some southern European countries (Spain, Greece) and Turkey and some eastern European countries (Poland, the Czech Republic and the Slovak Republic).
- Low employment rates, at around 60% or less, in some southern European countries (Greece, Italy, Turkey), central and eastern European countries (Hungary, Poland, Slovak Republic) and Mexico.
- Participation rates below 70% in Belgium, Greece, Italy, Luxemburg, Mexico, Poland and Turkey.
- Very low – at around 20% or less – participation rates of older workers in continental European countries (Austria, Belgium, France, Germany and Luxemburg), southern European countries (Greece, Italy and Spain) and some eastern European countries (Poland and the Slovak Republic).
- Continued difficulties to promote employment prospects of the low-skilled and youth in many OECD countries.
- Persistence of a high incidence of low-paid work and/or poverty, notably in Canada, Hungary, Korea, Poland, the United Kingdom and the United States.

The current unsatisfactory situation in many countries raises serious concerns with regard to the impact of a substantial ageing of the OECD population on future labour supply over coming decades. First, as older workers come to account for a growing share of the labour force, aggregate participation rates will drop in the absence of any reforms to

encourage them to continue working as, in many OECD countries, these workers have a much lower propensity to participate to the labour market than prime-age workers. Second, the increase of female participation that has been the major engine behind the increase of the labour supply during recent decades may not be sufficient to offset the negative impact of population ageing in the future. There are signs in several OECD countries that the positive “cohort effect”⁹ that has boosted female labour supply in the past may come to an end, as educational and participation gaps between men and women progressively fade away.

The OECD Secretariat has made several projections of the size of the labour force in member countries over the next 50 years (OECD, 2005e; Burniaux *et al.*, 2003). Though these projections use somewhat different methodologies and data sets, they yield a similar message. The total labour force for the OECD area is projected to remain roughly constant or even decline slightly over the next 50 years. On unchanged policies, the aggregate participation rate in the OECD area might fall from 60% now to less than 53% in 2050 (Figure 2.11, Panel A).¹⁰ The drop would be even more pronounced in the European Union,

Figure 2.11. **Baseline projection of population ageing, 1994-2050**



a) Calculated as the ratio of inactive aged 65 and above to the labour force aged 15 and above.

Source: Burniaux *et al.* (2003).

Statlink: <http://dx.doi.org/10.1787/125468351002>

though taking place later as the full impact of ageing would be somewhat delayed by the high participation rates of recent female cohorts in some southern European countries.

Substantial falls in the number of persons participating in the labour force are projected for a number of OECD countries, such as in Austria, eastern European countries, Italy, Japan, Korea, and, to a lesser extent, Germany. These countries face weak population growth, a rapid pace of ageing, low participation of workers aged 50 and over and weakening autonomous increases of participation across female cohorts.¹¹ Old-age dependency ratios – calculated as the ratio of those inactive aged 65 and above to working-age actives – are projected to rise from 25% for the whole OECD in 2000 to almost 50% in 2050 (Figure 2.11, Panel B), and from 35% to more than 60% in the European Union.

With this perspective, raising employment rates and improving career prospects for under-represented groups are critical in order to meet the forthcoming challenge of population ageing in most member countries. In particular, older workers still face high disincentives to work and represent a significant latent reserve of labour in many countries if these disincentives were removed. There is also some scope in several OECD countries to raise female labour force participation to levels similar to those seen in Nordic countries by providing the appropriate work incentives and encouraging the diffusion of family-friendly employment participation. Policy strategies for meeting this challenge are analysed in Chapter 4.

Notes

1. As many subsequent figures and tables, this figure reports data from the OECD database on Labour Force Statistics. The Statistical Annex in the back of this publication provides more detailed tabulations from this database, as well as a description of the underlying data sources and methods. Some of the data series from this source are affected by quantitatively small breaks that are documented in the Statistical Annex.
2. However, only Ireland succeeded in bringing unemployment down to a low level by international standards.
3. These are calculated with the use of a Kalman filtering approach that embodies a reduced-form Phillips curve (see Richardson *et al.*, 2000).
4. The main exceptions to this pattern are Finland and Sweden for which adjusted rates are estimated to have been broadly constant.
5. When measured per hour worked in the non-farm business sector, the acceleration in productivity in the United States is more striking than shows in Figure 2.3.
6. Calculated over the entire population of households, including non-working households.
7. It is important to emphasize that the data in Figure 2.9, as well as the more extensive analysis in Chapter 5, are based on a *relative* concept of poverty, in opposition to an *absolute* one. Comparisons of relative poverty rates – whether across countries or over time within a country – are not informative about how absolute poverty rates compare. The pros and cons of these two alternative definitions of poverty, as well as the implications of choosing a relative measure, are discussed in the Chapter 5.
8. Defined as the proportion of individuals living below the poverty threshold of 50% of the current median income despite the existence in the household of at least one worker. This definition differs from some other definitions in that i) it contains all individuals belonging to a household with at least one worker, whatever they work or not, and ii) the status of working household is not subject to a minimum amount of months or hours worked during the previous year. Thus, compared with the definition used by Eurostat, this proportion contains poor households with very little attachment to market work.

9. This refers to the fact that female cohorts that currently enter the job market have a higher expected lifetime profile of participation than women of previous cohorts, reflecting higher educational levels and socio-cultural changes (see Burniaux *et al.*, 2003).
10. These projections are more pessimistic than some others as they incorporate the restrictive assumption of no further autonomous increase of cohort-specific participation beyond what is observed for the last cohort entering the labour market in 2000. On the other hand, they yield relatively more optimistic evolutions than projections based on constant participation rates by age and gender groups that do not contain any cohort dynamics and therefore imply inconsistent lifetime participation profiles across cohorts (see Burniaux *et al.*, 2003).
11. In Japan, the fall of the labour force reflects the prospect of a large demographic decline together with a very rapid pace of population ageing and the absence of a positive female “cohort effect”, rather than the low participation level of older workers.

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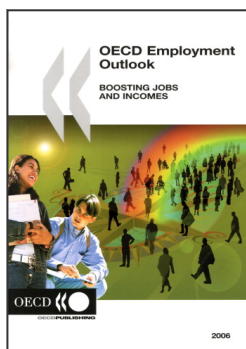
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