



The OECD 2017 Employment Outlook

Comments by the TUAC

Paris, 13 June 2017

A NEW LABOUR MARKET SCOREBOARD FOR A NEW JOBS STRATEGY

The 2017 Employment Outlook is proposing a new scoreboard to measure labour market performance in a broader and deeper way so as to see whether all segments of society are benefiting. A set of 8 indicators (see the headings from the OECD table below) measures the quantity but also the quality of jobs as well as the degree of labour market inclusiveness.

Quantity			Quality				Inclusiveness		
Employment	Employment in full-time equivalent units	Unemployment	Earnings quality	Labour market security	Quality of working environment		Low income rate	Gender labour income gap	Employment gap for disadvantaged groups
					Job strain	Very long-hours of work			
Share of working-age population (15-64 years) in employment (%) (2015)	Share of working-age population (15-64 years) in employment (%) (2015)	Share of persons in the labour force (15-64 years) in unemployment (%) (2015)	Gross hourly earnings in USD adjusted for inequality (2013)	Expected monetary loss associated with becoming and staying unemployed as a share of previous earnings (2013)	Share of workers experiencing job strain (2015)	% of workers usually working 60 or more hours per week in their main job (2015)	Share of working-age persons (18-65 years) living with less than 50% of median equivalised household disposable income (2013)	Difference between average annual earnings of men and women divided by average earnings of men (%) (2014)	Average employment gap as a percentage of the benchmark group (prime-age male workers) (2015)

OECD Employment Outlook 2017

TUAC concurs with the conclusion the OECD draws from the analysis of this new scoreboard. Here is indeed little sign of strong trade-offs between the quantity and the quality of jobs: high rates of employment do not tend to come at the expense of job quality. While indicators such as the gender labour income gap or the relative employment rate of disadvantaged groups have improved, the OECD is correct to observe a worsening trend for labour market security and for the share of households with a low income. At the same time, there are a number of important dimensions that are missing from the OECD's scoreboard:

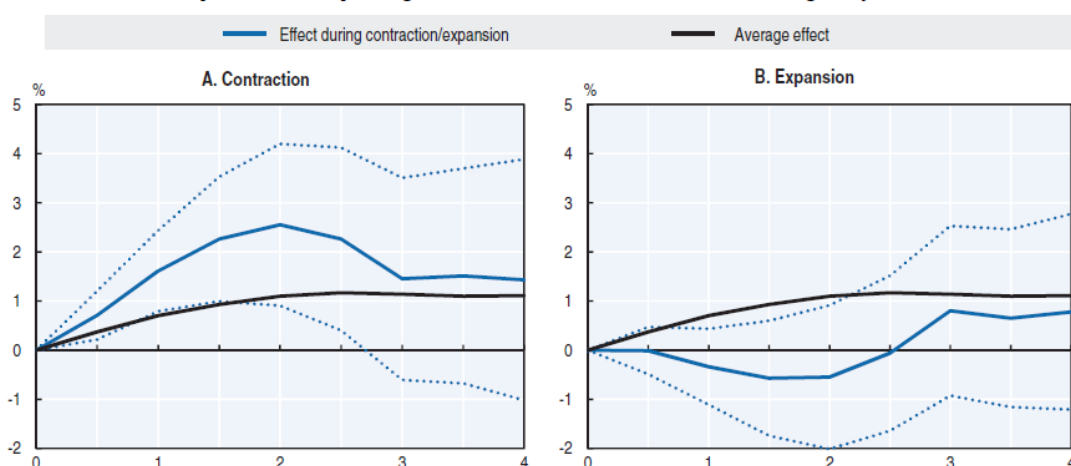
- Employment and unemployment rates do not take into account labour market slack in the form of involuntary part-time or marginally attached workers. The most recent OECD Economic Outlook indicated that a high degree of labour market slack is still present when slack is measured this way. This explains why wages are stagnant and lagging behind and why the recovery process is so modest¹.

- The OECD’s ‘labour market security’ indicator, which is a sub-indicator of the quality of jobs, fails to measure the extent to which jobs themselves in the economy are (in)secure. Instead, it measures the probability of workers losing their jobs and finding another one and combines these probabilities with the generosity of unemployment benefit. The insecurity from the employer having the power to fire workers on the spot or with a minimal notification, the insecurity from working in long chains of insecure, short term contracts, the insecurity from working on zero hours contracts, all of these dimensions are missing from the OECD indicator. The rationale underlying the OECD’s choice for this indicator is that workers need to find security in labour market “churning” (“you lose a job but you can find another one”), while employers themselves cannot be held responsible for providing stable contracts and jobs. This view however ignores the fact that workers often tend to appreciate the stability of the current job, in particular the prospect of not losing the job within the next 6 months, as an important characteristic of a quality job².
- The share of households with less than 50% of the median income is too general an indicator to test for the inclusiveness of the labour market as it also picks up policies that are not directly related to the labour market such as taxes and benefits. To assess the role of the labour market in more detail, this indicator needs to be complemented by the share of low wage earners and the incidence of working poor. In addition, while the share of income going to labour is mentioned as part of an inclusive labour market, this indicator is not yet taken up in the scoreboard.
- Also missing is an indicator on the inequality at the top of the income distribution, in particular because much of the trend of rising inequality is taking place in this part of the income distribution.

WHAT MATTERS MOST IS DEMAND SIDE POLICY

When looking at fiscal policy, the OECD finds that multipliers are much higher in downturns and, in the case of a very severe downturn, can be as high as 2,5%. In other words, a 1 percentage point of GDP increase in public spending increase generates 2 pp extra growth after 2 years. TUAC agrees with the OECD that this “suggests a strong case for counter-cyclical discretionary fiscal policy”.

Figure 2.8. **Government spending stabilises aggregate demand during economic downturns**
Impact of a fiscal spending shock of 1% of GDP on GDP over the following four years

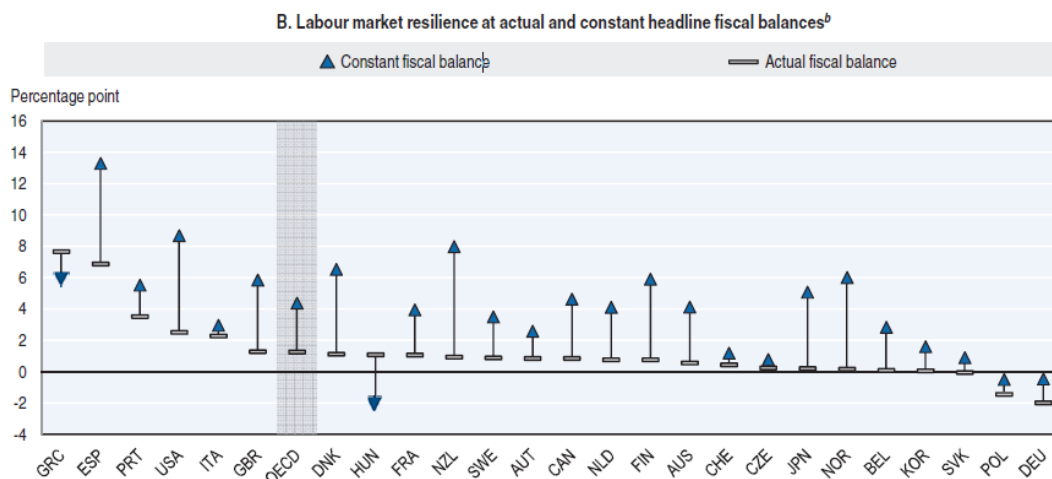


Note: The solid blue line indicates the point estimate during economic contractions/expansions, while the dotted lines indicate the corresponding 90% confidence interval. The black line indicates the point estimate on average over the business cycle. Overall public spending is defined for the present purposes by the sum of consumption and investment spending.

Source: OECD calculations based on the OECD Economic Outlook No. 100, <https://stats.oecd.org/index.aspx?DataSetCode=EO>.

Source: OECD <http://dx.doi.org/10.1787/888933477776>

Equally important is the simulation showing that fiscal policy did make a big difference in the post-2008 financial crisis and this even after the initial expansionary stance of fiscal policy was followed up by a turn to austerity. If, for the OECD as a whole, the fiscal deficit would have stayed at its level of 3,8% in 2008 and would not have exceeded that level by an annual average of 1,5% of GDP during this 8 year period, then the average deviation of unemployment from its pre-crisis structural level would have been 4 percentage points, not 1 percentage point (see graph below). Labour market resilience would have improved considerably if policy makers had not decided to make the huge turn to austerity and would have maintained higher deficits for a longer period.



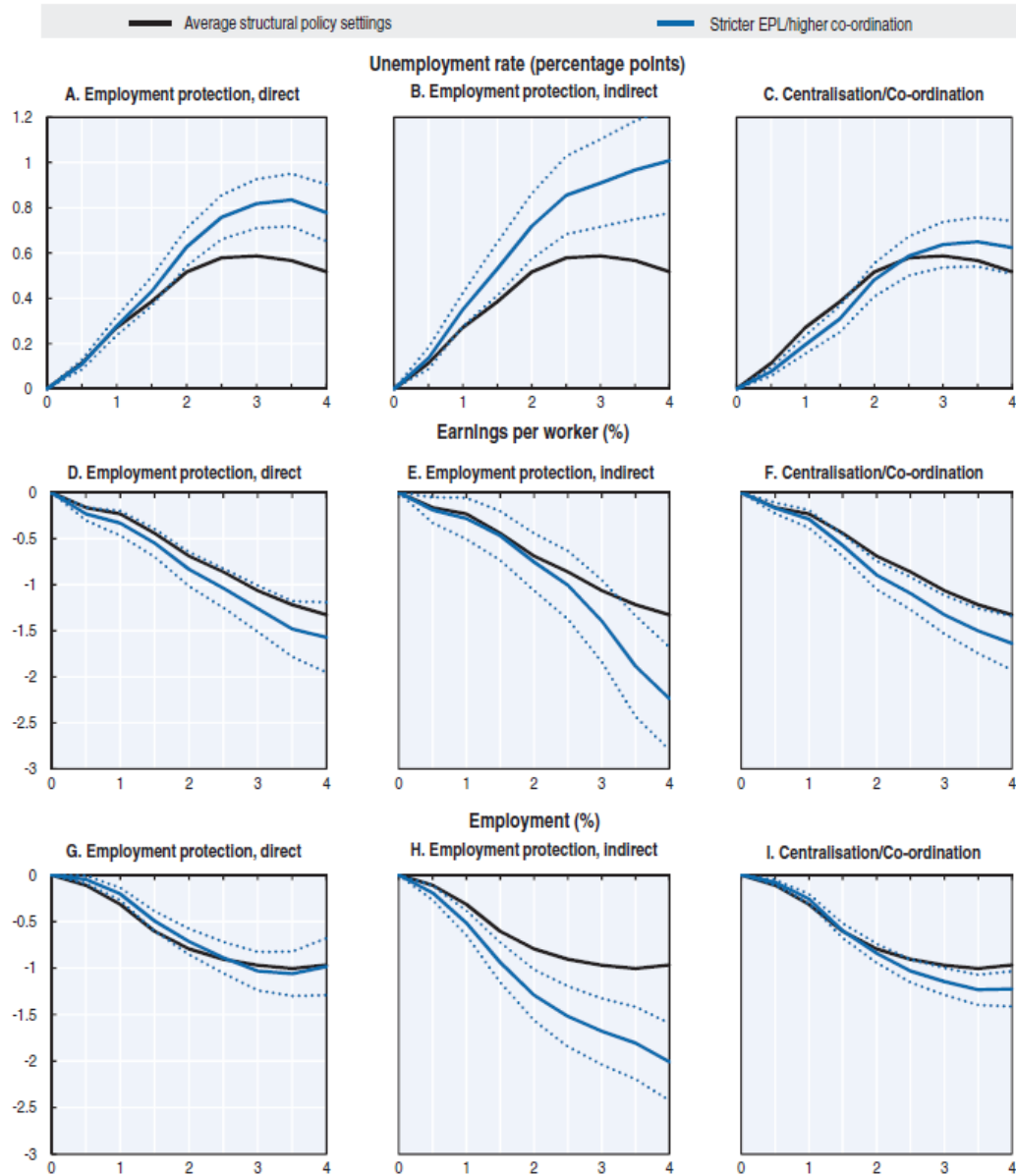
Source: OECD <http://dx.doi.org/10.1787/888933477814>

CENTRALISED OR COORDINATED COLLECTIVE BARGAINING IMPROVES RESILIENCE

When looking into the structural policies that determine labour market resilience, the OECD identifies two categories: centralised or coordinated collective bargaining and employment protection legislation (EPL) for regular workers. Contrary to the long held view about the merits of decentralised bargaining systems allowing wages and productivity to be aligned at the level of individual firms, the OECD now finds that centralised or coordinated collective bargaining systems cushion the impact of economic shocks on jobs and unemployment (see right hand panels in graph below).

Centralised/coordinated bargaining does so by making the adjustment of working time with a corresponding decrease in wages more acceptable by ensuring these are broad based and hence more equally shared. Here, the OECD also importantly makes a link with the use of short-time work schemes that partially compensate for the lost wages and that often imply the involvement of social partners.

Figure 2.6. **The role of labour market policies and institutions for labour market resilience**
 Impact of a 1-percentage point decline in GDP under alternative labour market policy settings over the following four years



Source OECD <http://dx.doi.org/10.1787/888933477756>

QUESTIONABLE FINDINGS ON JOB PROTECTION FOR REGULAR WORKERS

The other structural policy which according to the OECD would have an impact on labour market resilience is job protection for regular workers. It is argued that job protection would not protect workers from becoming unemployed but would intensify the reaction of unemployment to crisis. In arriving at this counterintuitive result, the OECD uses a regression that assumes that the incidence of temporary contracts is directly and mainly related to the level of job protection for regular workers. The OECD then uses this outcome to test for the indirect effect of job protection for regular workers; in other words, the OECD attempts to measure the extent to which regular worker job protection is supposed to push management

into using temporary contracts, contracts which can be terminated quickly when an economic crisis hits. It is this indirect effect that drives the OECD's findings on job protection, not the impact of strict employment protections per se.

In doing so, the OECD does not take account of important recent research on the reasons why management resorts to temporary contracts. Recent research findings by the ILO indeed suggest that firms that make intensive use of temporary contracts are not determined by the level of employment protection. As their aim is above all to squeeze the wage bill, they will still resort to temporary contracts even if protection on regular contracts is minimal (severance pay or notification requirements). What will impact their choice is regulation that restricts the use of temporary contracts (such as prohibiting fixed term contracts for permanent tasks or putting limits on chains of fixed term contracts)³.

The implication is that the OECD's regression is not well specified: The incidence of temporary contracts also depends on rules that regulate the use of temporary contracts. It is too simple to narrow the discussion down to protection of regular contracts. What most of all matters is to systematically close the backdoors employers have at their disposal to get around the open ended contract. That is not tested by the OECD.

¹ 07/06/2017 | OECD Economic Outlook 2017 recognises that weak wages produce a weak recovery
http://www.tuac.org/en/public/e-docs/00/00/13/4F/document_news.phtml

² For example, the 6th European Working Conditions Survey from the Dublin Foundation, using special statistical techniques, concluded that the cluster of poor quality jobs is defined by the incidence of fixed-term contracts, the low use of skills, the absence of career advancement as well as by a high share of workers expecting to get laid off in the next 6 months
<https://www.eurofound.europa.eu/publications/report/2016/working-conditions/sixth-european-working-conditions-survey-overview-report>

³ Based on a world survey of individual firms, researchers from the ILO have found that, throughout the world, a clear majority of firms (60%) do not use temporary labour on a regular basis. Regarding the remaining 40%, two categories are singled out: the "moderate users" of temporary work, with around one third of their staff on temporary contracts, and the "intensive users" with up to 50% or more of the workforce under temporary contracts. "Moderate users" employ workers on a temporary contract for traditional reasons such as temporary replacement of an absent worker, temporary increase in production or testing the worker before hiring on an open ended basis. "Intensive users" strategically organise their production around the possibility of using temporary labour, including first and foremost squeezing labour costs. The ILO finds that these two categories of employers react very differently to job protection regulation. For intensive users in particular job protection for regular workers does not influence employer behaviour. As their aim is above all to squeeze the wage bill, they will still resort to temporary contracts even if severance pay or notification requirements are minimal. What does impact their choice is regulation that restricts the use of temporary contracts such as prohibiting fixed term contracts for permanent tasks or putting limits on chains of fixed term contracts.
http://www.ilo.org/inst/events/WCMS_461927/lang--en/index.htm