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Employment Outlook 2018

An employment recovery on the back of wage stagnation & low-paid jobs

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Key messages

The key finding of the [Employment Outlook 2018](#) released today is that despite rising employment rates, OECD countries are facing “unprecedented wage stagnation”. While the OECD average unemployment rate is expected to land at 5.3% by the end of the year, wage growth remains exceptionally weak, about half of what it was ten years earlier. And wage stagnation is primarily affecting low-paid workers, and part-time workers – real labour incomes of the top 1% of earners are increasing much faster. Poverty – measured as the share of the working age population with an equivalent disposable household income lower than 50% of the median in 2015 in almost *all* OECD economies since 2006 and has only decreased significantly in Korea, Mexico and Chile. Low-pay jobs are singled out as “an important channel” accounting for wage stagnation.

Moving to policy recommendations, the Outlook quickly jumps to skills policies (high-quality education and training systems to help worker accessing better paid jobs), to better designed active labour market policies and to competition regulation (the latter to ensure productivity gains are shared across firms, not captured by a handful of “superstar” firms). It is far less univocal on the role of labour market institutions in moving the economic recovery away from the low-pay, low-quality job trap. Despite a specific thematic chapter (see below), the Outlook refrains from including collective bargaining in the policy package. When stating that “many workers were forced to accept low-pay jobs”, the OECD ignores altogether the role of policy in weakening collective bargaining systems and coverage.

The jobs recovery is taking place on the back of low-paid jobs and wage stagnation, thus feeding into more working poor populations. The policy package that OECD economies need to implement should indeed include better designed skills systems that enable firms to increase productivity. However, if workers are to benefit productivity gains, decisive policy action is also necessary to reverse the trend toward weakening and reducing the scope of collective bargaining – as evidenced by the thematic chapter in the Outlook itself.

Comments on the chapters of the Employment Outlook

One key chapter of the 2018 Employment Outlook is the analysis of the link between collective bargaining and good labour market performance. This chapter sheds serious doubt on the traditional held view that collective bargaining needs to be made more flexible by pushing it to the level of individual firms. Indeed, the OECD finds that coordinated and/or centralised models of collective bargaining achieve stronger employment outcomes, better access of ‘outsiders’ to jobs and lower wage inequalities compared to decentralised bargaining systems.

These findings need to be taken seriously. When collective bargaining is concerned, the argument that higher inequalities are the inevitable price to pay for improved labour market performance can no longer be maintained. Even more important is that this new OECD research implies that policy makers should, at the very least, stop favouring decentralised bargaining by advancing proposals that weaken and hollow out systems of coordinated and/or multi-employer bargaining.

“Back to work” is another chapter with interesting conclusions. It draws the lessons from policies to assist displaced workers in nine countries, thereby insisting on the value of early intervention. Here, the OECD stresses in particular the need to jump-start the adjustment process by initiating re-employment services during the notice period prior to displacement. In other words, the OECD is arguing that it is imperative to reach out to workers before they fall into the ‘black hole’ of unemployment.

In turn, this conclusion allows appreciating the benefits of employment protection in terms of adequate periods of advance notification but also the advantage of having multi- employer bargaining as this allows social partners to pool resources in order to share efforts that address risks related to structural change. A good case example of the latter and also referred to by the OECD are the Swedish [“Job Security Councils”](#). These are social partner organised labour market institutions at sector level that enter the company to assist workers from the moment of their notification of dismissal. These councils manage to achieve a re-employment rate for displaced workers as high as 90%. Similar institutions also exist in Austria (“Outplacement Labour Foundations”) or in Denmark.

Wage less growth. The Outlook devotes much attention to the question as to why wage growth dynamics (except for the top 1%) keep lagging behind declining unemployment rates in the current recovery. Besides explaining low wage growth as the result of low inflation and low productivity growth, the OECD also finds that the increase in non-standard work, in particular involuntary part-time work, is keeping average wage growth sluggish as this type of work, compared to full-time contracts, pays both lower wages as well as showing a lower growth of wages. This, in turn, is linked by the OECD with the fact that austerity driven policy reforms have resulted in declining coverage rates of unemployment benefits declining, thus making jobseekers have become less choosy and more willing to accept a low quality, low paid jobs. To be noted however is that the OECD in all of this ignores the role of policy in weakening collective bargaining systems and coverage. so that the part-time/temporary contracts that jobseekers are forced to accept is not protected by a common wage standard either.

Technological progress and ‘Superstar’ firms to explain declining labour share. The Outlook seeks to explain the decline of labour shares in terms of technological progress replacing workers with machines (robots, artificial intelligence) but also as the

result of the rise of capital –intensive ‘super firms’ gaining bigger pieces of the market. The policy advice that follows is the standard one of investing in better educated and better skilled workers, although the foreword to the Outlook does underline the important role that social partners and social dialogue can play in this. Meanwhile, the question whether labour market institutions can also explain a part of the decline in labour share is referred to as ongoing work to be published in a forthcoming working paper.

Increasing gender labour gaps. Finally, the Outlook addresses the question as to why the gender gap in labour incomes increases over working life. It finds that most of this gap is generated in the first half of the career. To address this, the OECD recommends family policy and behavioural changes in the workplace such as increased take up of part-time work by both fathers and mothers. Here as well, the role of labour standards and rights such as ‘equal pay for equal work’ seems to be overlooked.