

THE STATE OF THE NORTH AMERICAN LABOUR MARKET

Report Prepared for
the 2016 North American Leaders
Summit



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Authors: Stijn Broecke, Shruti Singh, Paul Swaim

Statistical and editorial support: Gabriela Bejan, Alessia Forti, Thomas Manfredi

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Table of Contents

<i>Chapter 1</i>	<i>Common Trends And Challenges</i>	9
	How North America has weathered the crisis.....	10
	Long-term challenges.....	11
<i>Chapter 2</i>	<i>Canada's Labour Market: Challenges And Prospects</i>	20
	How has the labour market weathered the crisis?.....	20
	Preparing for the future: Strengthening labour utilisation, job quality and investments in skills.....	23
<i>Chapter 3</i>	<i>Mexico's Labour Market: Challenges And Prospects</i>	35
	How has the labour market weathered the crisis?.....	35
	Preparing for the future: Strengthening labour utilisation, job quality and investments in skills.....	38
<i>Chapter 4</i>	<i>The United States Labour Market: Challenges And Prospects</i>	51
	How has the labour market weathered the crisis?.....	51
	Preparing for the future: Strengthening labour utilisation, job quality and investments in skills	57
<i>Chapter 5</i>	<i>Key Policy Responses And Issues</i>	70

Executive summary

1. The economies of Canada, Mexico and the United States were hard-hit by the economic and financial crisis, yet they recovered relatively quickly and strongly in comparison with the experience of OECD countries in other regions of the world. Among other factors, the resilience of North American economies reflected: the strong economic ties that exist between the three countries, their generally sound policy frameworks, an abundant array of natural resources, as well as relatively favourable demographics.

2. North America's labour markets have also recovered relatively swiftly from the crisis by comparison with other advanced economies - although unemployment, under-employment and inactivity rates remain stubbornly above their pre-crisis levels in almost all cases. The short-term policy challenge in the three countries is therefore to strengthen the recovery and to prevent a permanent scarring of labour market prospects for the long-term unemployed who have either lost their jobs during and after the crisis and not yet managed to find another one, or failed to find a first job upon entering the labour market.

3. Despite their differences in economic and social contexts, as well as in institutional set-ups, North American labour markets exhibit some common strengths, including a relatively high level of adaptability and low levels of unemployment overall. However, they also face a number of common, long-term challenges, which will require policies to promote more inclusive labour markets that fully utilise and develop the skills of individuals, and enable job seekers to find productive and rewarding jobs:

- One of these challenges is the **persistent under-utilisation of labour resources**, which manifests itself primarily through the lower employment rates of certain groups in society, like women, youth and older workers. This under-utilisation of labour resources is of particular concern given the demographic change that countries are experiencing, and the negative consequences this is likely to have for growth and the sustainability of social protection systems.
- Another major challenge has been the **low rate of productivity growth**, particularly in Mexico and in Canada. In the case of Mexico, this has translated into **no (or even negative) real wage growth**. Canada's labour productivity growth during 2000-15 ranked only fifth among the G7 countries. In the United States, productivity has kept increasing, but workers' wages (particularly in the bottom and middle ranges of the distribution) have not risen in line with this growth in productivity, resulting in wage stagnation for much of the workforce and rising levels of inequality.
- Indeed, the **high levels of earnings inequality** observed in North America are a serious cause for concern. Higher inequality has been shown to: reduce upward social and intergenerational mobility; increase health and social problems; lower social cohesion and trust; raise crime rates; and reduce economic growth.

- High earnings inequality negatively affects **job quality** in North America, but other key aspects of job quality are more favourable. In particular, Canada scores relatively well on a number of job quality dimensions. Relatively low job security is a significant concern in both Mexico (no unemployment insurance) and the United States (high risk of becoming unemployed and the relatively less generous income support available to the unemployed as compared to most other OECD countries despite the lengthening provided during the recent crisis). In addition, in Mexico, the high prevalence of **informal employment** means that many workers have no social protection and employment security at all.
- Many of the longer-term challenges facing North America's labour markets are related to the **low skills levels** of a significant part of their workforces – especially in Mexico and the United States. This is of particular concern given the rapid changes that are occurring in the demand for skills: substantial transformations are occurring in the sources of job growth and the types of jobs that are being created - driven by a mixture of economic and social developments, increased globalisation, technological advances and demographic changes.

4. Important efforts have already been made, or are underway, to address the challenges identified in this report. In Canada, the new federal Government, which has taken office in November 2015, has committed to addressing the current challenges facing workers of all ages. Budget 2016 pledged major funding increases towards the Youth Employment Strategy as a mean to facilitate school to work transitions. The budget also announced an additional CAD 125 million in 2016-2017 for the Labour Market Development Agreements and an additional CAD 50 million in 2016-2017 for the Canada Job Fund Agreements. This builds on previous measures put in place to support the skills of workers in general (e.g. Canada Job Grant) and older workers (e.g. Targeted Initiative for Older Workers that has been in place since 2007). Important steps have also been taken to reduce barriers to labour mobility across the country, including the harmonisation of apprenticeship training requirements in the Red Seal trades. In Mexico, as part of a series of bold reforms, a comprehensive labour market reform was announced in 2012, aimed at improving the employment prospects of youth and women, and to tackle the high incidence of informality and low productivity. Significant investments are also being made in the quantity and quality of education. In the United States, the Workforce Innovation and Opportunity Act of 2014 better aligns the different components of the public workforce system while also strengthening employers' engagement in the system. The Obama Administration has also proposed to raise the minimum wage, increase the number of apprenticeships and public job training slots, guarantee free access to community college training programmes, introduce a new tax credit for childcare costs, and require private sector employers to provide paid sick leave for workers.

Chapter 1

Common trends and challenges

5. Overall labour market performance has been relatively strong in the North American economies (Canada, Mexico and the United States), as compared with that observed in advanced economies in other regions of the world, due to positive factors such as: the strong economic ties that exist between the three countries, their generally sound policy frameworks, an abundant array of natural resources, as well as relatively favourable demographics. Nonetheless, the global economic and financial crisis resulted in higher unemployment, under-employment and inactivity across North America and the recovery has been uneven and is still not complete. The short-term challenge for labour market policy in the three countries is to strengthen the recovery and to prevent a permanent scarring of labour market prospects for those who have lost their jobs during the crisis and not yet managed to find another one, or failed to find a first job upon entering the labour market. At the same time, a number of long-term challenges need to be confronted. These require policies which promote more inclusive labour markets that fully utilise and develop the skills of individuals, and enable job seekers to find productive and rewarding jobs.

6. The purpose of this report is to assess the recent performance of North American labour markets and their prospects from an internationally comparative perspective. It addresses how the labour market in each country weathered the recent turmoil resulting from the global economic and financial crisis as well as the key long-term labour market challenges each country faces. While the overall economic and social context and the institutional set-up vary across the three countries, there are nonetheless similarities in the way North American labour markets have responded to the crisis, which partly reflects the strong economic and cultural ties that exist between the three countries. They also face some common structural barriers, as well as challenges resulting from rapid technological change, the increased interconnectedness of the global economy, demographic transformation, and high (and in some cases rising) earnings inequality.

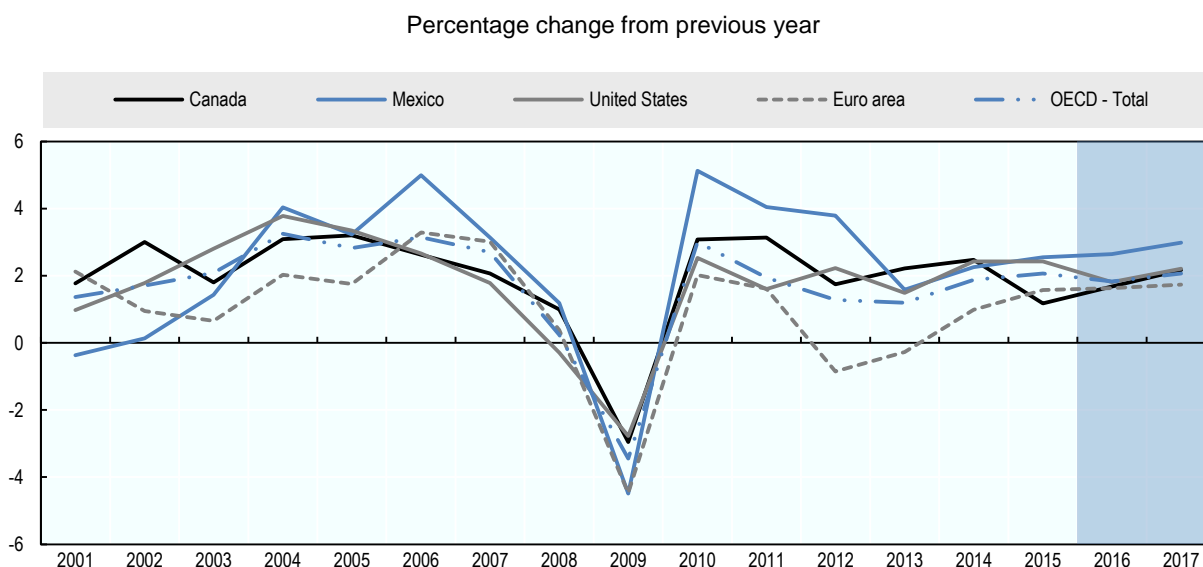
7. In the remainder of this chapter, a comparative overview is provided of recent developments in North American labour markets and the short-term challenges they face. This is followed by a summary of the long-term challenges that policy makers will need to address. These short- and long-term challenges and their implications for policy are examined in more detail for each of the three North American economies in the three chapters that follow. The key policy responses to address these challenges are pulled together in Chapter 5, which also raises some issues for discussion.

How North America has weathered the crisis

Economic growth

8. The global economy is recovering only slowly from the economic and financial crisis of 2008-09, but there is a marked divergence across regions and countries in economic performance. While hard-hit by the crisis, North America's economies have rebounded relatively quickly and strongly, in contrast to the euro zone which experienced a second recession during 2011-13. The OECD projects GDP growth during 2016 of 1.7%, 2.6% and 1.8% in Canada, Mexico and the United States, respectively, compared to 1.6% in the euro area and 1.8% across the OECD on average (Figure 1.1). Growth rates in the euro area and the OECD are expected to increase slightly in 2017 (1.7% and 2.1%, respectively), but they will remain moderately higher in North America (2.2% in Canada, 3.0% in Mexico and 2.2% in the United States).

Figure 1.1. Real GDP growth, 2001-17^a



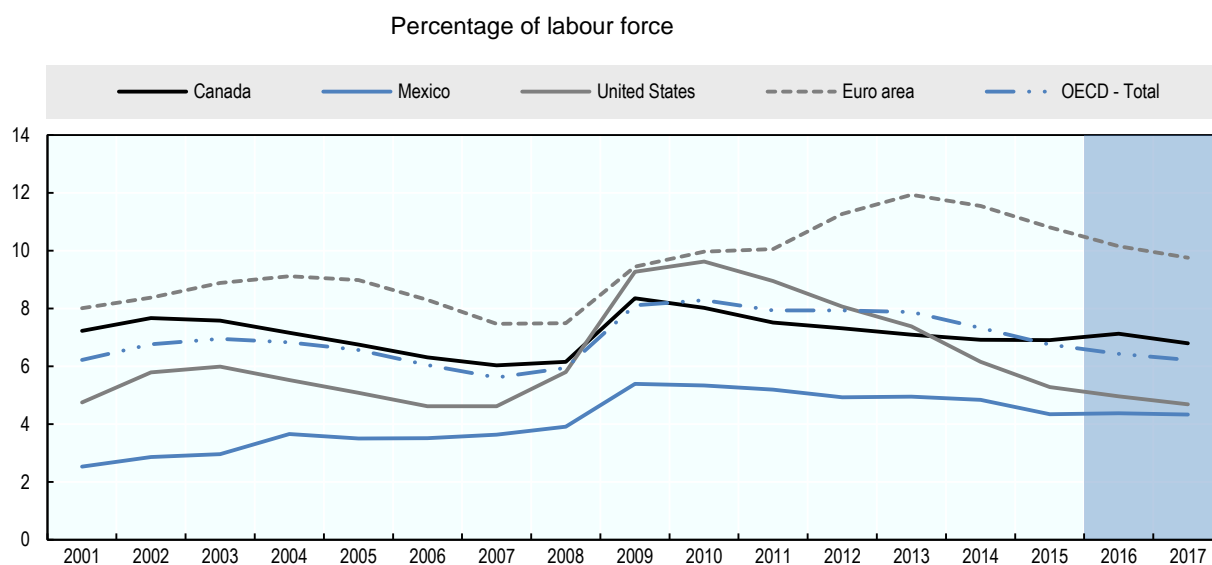
a) Shaded area indicates projected values.

Source: OECD (2016), *OECD Economic Outlook*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2016-1-en.

Recent labour market developments and short-term challenges

9. Employment growth in the wake of the recent recession has been relatively weak in the OECD area and unemployment remains above pre-crisis levels, but less so in North America than in other regions (Figure 1.2). While unemployment rates in the euro area continued to rise until 2013 before finally beginning to abate, they have been falling since 2009 in Canada, Mexico and the United States where, in 2017, they are projected to reach 6.7%, 4.3% and 4.7%, respectively. If realised, these unemployment rates will be well below those that are expected to prevail in the euro area (9.8%) and across the OECD (6.2%), but will remain at least a little above their pre-crisis levels of 6.0%, 3.6% and 4.6%, respectively.

Figure 1.2. **Unemployment rate, North America, Euro area and OECD, 2001-17^a**



a) Shaded area indicates projected values.

Source: OECD (2016), *OECD Economic Outlook*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2016-1-en.

10. The relatively slow recovery in job growth has led to increases in long-term unemployment across North America and most other OECD countries. Despite recent improvements, the concern remains that long spells of joblessness translate into higher structural unemployment via their effect on skills depreciation, discouragement and health, as well as the tendency for employers to stigmatise this group. While the non-accelerating inflation rate of unemployment (NAIRU – a common measure of structural unemployment) has increased in some European countries, this has not been the case in North America. However, at least in the United States, there are two worrying developments: on the one hand, there are signs that job matching efficiency has started to deteriorate (OECD, 2014); and, on the other hand, much of the early post-recession fall in unemployment was achieved through declining labour force participation (only in the past year has the decline in unemployment been accompanied by stable participation). While some of the fall in labour force participation reflects longer-term trends (including an ageing population), participation rates have also been declining among prime-age workers, and especially among youth.

Long-term challenges

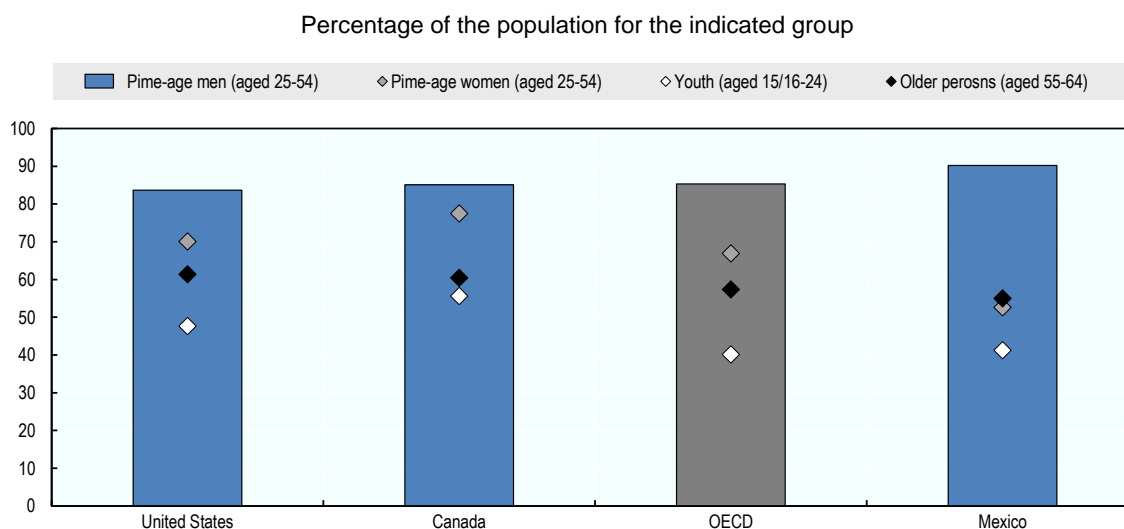
11. Despite the short-term challenges outlined above, North America's labour markets have shown a relatively swift recovery from the crisis in comparison to those in the rest of the OECD area. This reflects the economic dynamism of the region, but also the relative adaptability of its labour markets. Looking ahead, there are nevertheless a number of key challenges that the three countries have in common. These are outlined below, and discussed in further detail in the country chapters, along with a range of more country-specific challenges. These common challenges relate to: strengthening the utilisation of labour resources; raising productivity and boosting wages; addressing high levels of earnings inequality; improving job quality; and investing in skills.

Strengthening labour utilisation

12. A key challenge for North American labour markets is the persistent under-utilisation of certain labour resources. With a few exceptions, employment rates for most groups are higher in North America than in the OECD on average. Nonetheless, there is room for progress since women continue to have lower

employment rates than men in all three countries (but especially in Mexico), and both youth and older workers are also less likely to be in employment (Figure 1.3). This represents a significant waste of human capital. In the case of women, for example, it has been estimated that closing the gap in labour force participation with men over the period 2011-2030 would bring important economic benefits, adding 0.4 and 0.5 percentage points, respectively, to the average annual growth rate in GDP per capita in Canada and the United States over the same period (Thévenon et al., 2012). In Mexico, these potential gains are likely to be significantly larger.

Figure 1.3. **Employment/population ratios by socio-demographic characteristics, North America, OECD and European Union, 2014^a**



a) Youth refers to persons aged 16-24 for the United States.

Source: OECD Online Employment Database, www.oecd.org/employment/database and national labour force surveys.

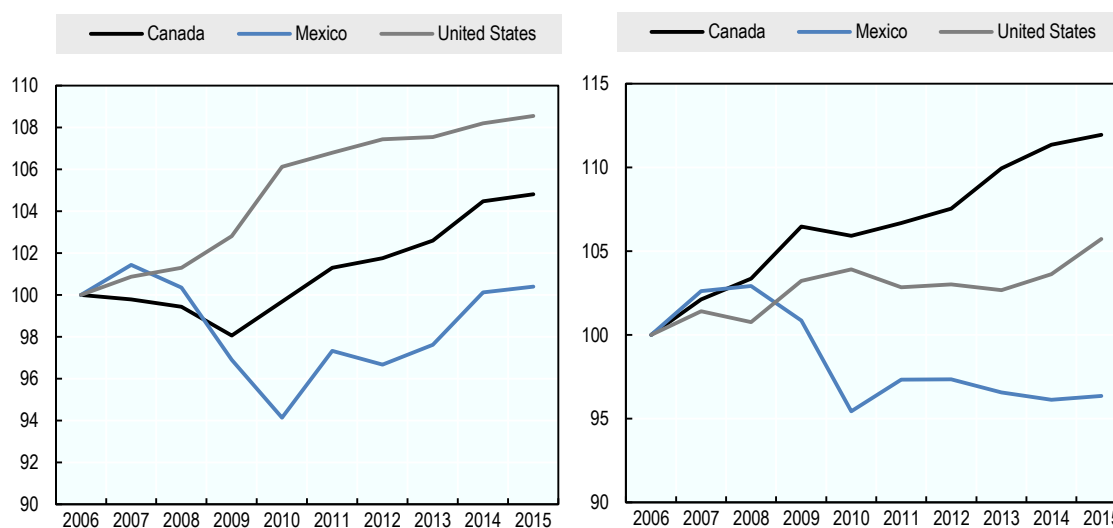
13. The low utilisation of certain labour resources is of particular concern given the demographic change that all three countries are experiencing. Ageing populations in Canada and the United States make it crucial to engage under-employed groups in the labour market to boost growth and make social protection systems fiscally and socially sustainable. While Mexico's population is also ageing rapidly, youth will continue to represent a large share of the working-age population in the coming decade. Poor labour market integration of these groups would create significant costs not only for individuals, but for the productive capacity of the economy as a whole. Also, as Mexico continues on its path of industrialisation and urbanisation, the responsibility for social welfare is likely to further shift from families and firms onto the public sector, increasing pressure to widen insurance programmes, including health care, pensions, unemployment benefits and long-term care. The expansion of these social programmes will need to be adequately funded.

Raising productivity and boosting real wages

14. In both Canada and Mexico, labour productivity growth has trailed that of major competitors in recent years. Canada's labour productivity growth during 2000-15 ranked only fifth among the G7 countries, while in Mexico productivity declined between 2006 and 2010 in stark contrast to what has been happening in most of the other main emerging economies that compete with Mexico on the global market. Falling productivity was associated with a fall in real wages in Mexico over that period. While productivity has been rising again since 2010 in Mexico, wages have continued on

a downward path – with some signs of reversal in 2015 (Figure 1.4). Real wage growth in the United States has also been relatively poor, lagging behind growth in productivity. While inadequate productivity and real wage growth may be a concern across the region, the specific challenges vary from country to country. In Canada, reforms of tertiary education, improving the design of innovation policies and further developing the skills of the workforce are required to boost productivity. In Mexico, low productivity is closely linked to the challenge set by a large informal sector, as well as the low level of skills of the workforce. In the United States, the question is how to make sure that workers, and in particular those in the bottom half of the wage distribution, benefit from productivity gains.¹

Figure 1.4. **Labour productivity and real wages growth in North America, 2006-15**



- a) Compensation of employees divided by total hours worked of employees in real terms (deflated using the consumer price index).
 b) Labour productivity of the total economy.

Source: OECD calculations based on OECD (2016), OECD Economic Outlook, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2016-1-en.

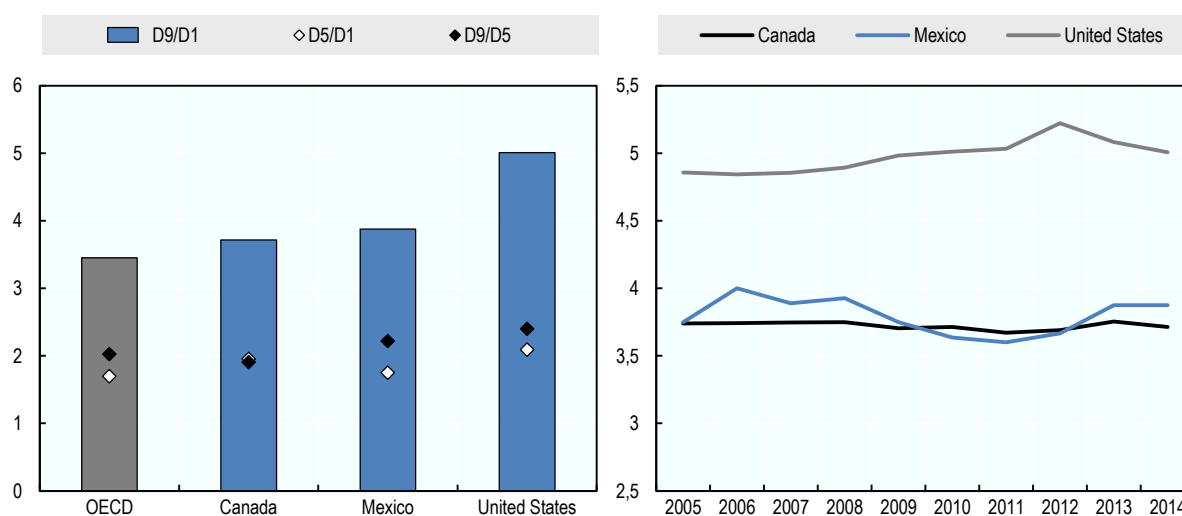
Addressing high levels of earnings inequality

15. All three North American countries are marked by relatively high levels of earnings inequality, but the United States stands out for having especially high earnings dispersion (Figure 1.5). Earnings inequality (as measured by the ratio of the 9th to the 1st deciles of the earnings distribution) has increased slightly in the United States over the period 2005-2013, while it has remained relatively stable in Canada. In Mexico, reductions in earnings inequality were achieved up until 2011 (in part thanks to a decline in informal employment), but slight increases have been observed since.

1. OECD (2012) shows that wages have risen more slowly than productivity since 1990 in a large majority of advanced economies, including Canada and the United States. A number of factors appear likely to explain the resulting trend decrease in the share of total income accruing to workers, at least in part. In particular, declines in the bargaining power of workers due to increasing product market competition and labour-saving technological change appear to have played significant roles. The declines in the wage share of labour often has been accompanied by declining union membership, but is unclear whether declines in union density is an independent factor causing wage growth to lag productivity or is itself a consequence of intensified product market competition.

16. The reasons behind high levels of earnings inequality in North America are multiple and varied, but can be traced back in large part to the institutional set-ups, policies and practices of the three countries. In particular, differences in minimum wage levels (Koeniger, Leonardi and Nunziata, 2007), unionisation and collective bargaining coverage (Braconier and Ruiz-Valenzuela, 2014), as well as in employment protection legislation (OECD, 2015) and the prevalence of practices like performance pay (Lemieux, McLeod and Parent, 2007), have been shown to explain a substantial share of differences in gross wage inequality across countries. Skills also play a role. In some countries (including the United States and Mexico), additional investments in the skills of low-wage-workers could increase their productivity and help reduce wage inequality (OECD, 2015). Earnings inequality is also affected indirectly by policies that influence labour supply decisions, such as parental leave and part-time work regulations, as well as other institutions affecting the flexible use of working hours.

Figure 1.5. Earnings inequality^a in North America



a) Earnings dispersion is measured by the ratio of 9th to 1st deciles limits of earnings, 9th to 5th deciles and 5th to 1st deciles.

Source: OECD Earnings Distribution Database, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm#earndisp.

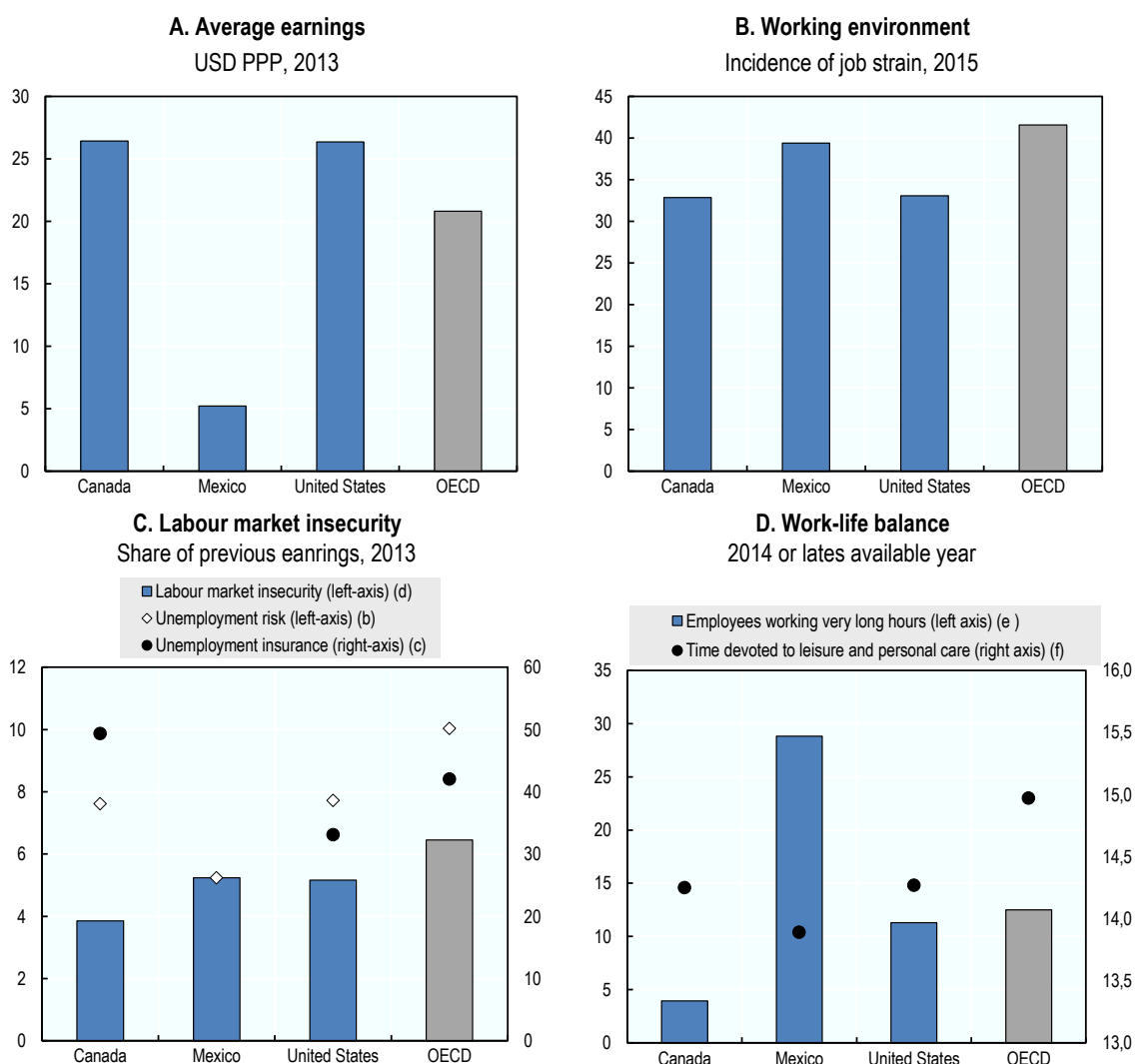
17. Earnings inequality is primarily of concern because it is the single largest contributor to household income inequality, even if a number of other factors also play an important role (OECD, 2011). In particular, a progressive tax system and social transfers can reduce inequalities in disposable income by comparison with market wages and earnings. Income inequality has risen since the mid-1980s in all three North American countries, although it has fallen since the mid-1990s in Mexico after climbing very steeply during the preceding decade. Income inequality is moving up the policy agenda in most countries, as both its social and economic costs are becoming increasingly understood. Not only has inequality been shown to reduce upward social and intergenerational mobility (Krueger, 2012), it has also been found to be associated with a wide range of health and social problems (Pickett and Wilkinson, 2011), lower social cohesion and trust (Brown and Uslaner, 2002), higher crime (Fajnzylber et al., 2002), and even reduced economic growth through lower investments in human capital (Stiglitz, 2012; Cingano, 2014).

Improving job quality

18. Labour market performance depends not only on the number, but also on the type of jobs that are created, and countries should be aiming to promote better as well as more jobs. In fact, there is evidence to suggest that the two go hand in hand: countries that perform well in terms of jobs quantity also tend

to do well on overall job quality. Job quality is more difficult to measure, however, and encompasses a number of dimensions. The OECD (2014) measures job quality along three main dimensions: earnings quality (the level and distribution of earnings); labour market security; and the quality of the work environment. In addition, as part of its Better Life Index (2014), the OECD has attempted to quantify work-life balance. Figure 1.6 provides a summary overview of some of these indicators in an attempt to paint a picture of job quality across North American countries, in comparison to the OECD average.

Figure 1.6. Job quality in North America



- a) Share of employees. Job strain: one job demands with no job resources, or two demands with only one job resource or none. High level of job demands: two job demands. High level of job resources: two job resource.
- b) Unemployment risk: the probability of becoming unemployed times the expected duration of unemployment which may be interpreted as the average expected earnings loss associated with unemployment as a share of previous earnings.
- c) Unemployment insurance: the effective net individual replacement rate of unemployment and social assistance benefits in terms of previous earnings.
- d) Labour market insecurity: unemployment risk times one minus unemployment insurance which may be interpreted as the uninsured average expected earnings loss associated with unemployment as a share of previous earnings. For further details, see the web annex of Chapter 3 of the Employment Outlook 2014, http://dx.doi.org/10.1787/empl_outlook-2014-en.
- e) Proportion of dependent employed whose usual hours of work per week are 50 hours or more.
- f) Number of hours per day that, on average, full-time employed people spend on leisure and on personal care activities.
- g) Time devoted to leisure and personal care: estimate.
- h) Estimates.

Source: OECD Employment Outlook 2014 for average earnings, working environment and labour market insecurity, http://dx.doi.org/10.1787/empl_outlook-2014-en. OECD Better Life Index Database 2014 for work-life balance, <http://dx.doi.org/10.1787/bli-data-en>.

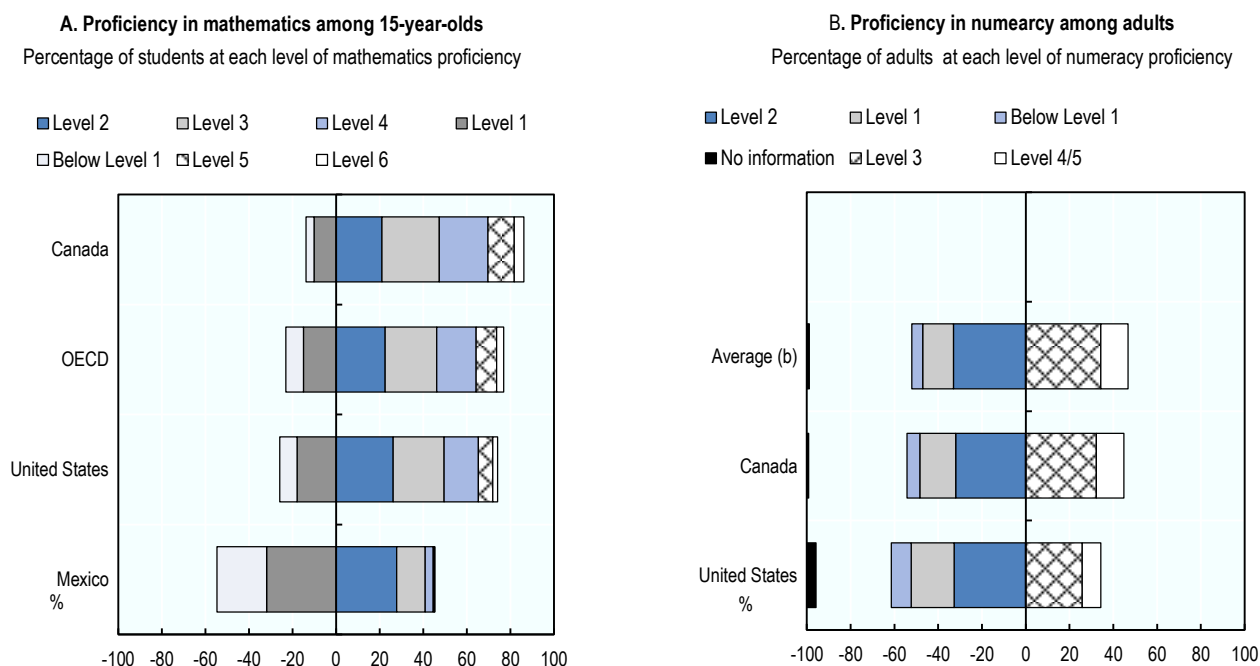
19. While all three countries perform relatively poorly on earnings inequality (see previous section), average earnings in both Canada and the United States are well above the OECD average (Panel A). By contrast, average earnings are relatively low in Mexico. North American countries also do relatively well on the quality of the work environment, as measured by the incidence of job strain (Panel B). However, with the exception of Canada, there are aspects of job security that are a cause for concern in North America. Specifically, there is currently no unemployment insurance in Mexico (although a scheme is being developed) and, in the United States, flexible employment protection legislation results in a high risk of becoming unemployed, while income support is below average when individuals do lose their job (although the maximum duration of unemployment insurance was temporarily extended to 99 weeks during the crisis in most states). Job quality tends to be higher in Canada. Overall, however, the three North American countries tend to have only average job quality in comparison with other OECD countries. In Mexico, there is the added dimension that informal work is widespread, implying that a large part of the working population has little or no job protection and/or security.

Investing in skills

20. Underlying many of the key challenges highlighted above is the skills challenge that North America faces in order to remain one of the world's most competitive and dynamic regions. This is particularly relevant for the United States and Mexico. The OECD Survey of Adult Skills (PIAAC, 2012) tested the literacy, numeracy and problem-solving in technology-rich environments skills of the working age population in 22 OECD countries, including Canada and the United States.² In numeracy, both Canada and the United States (but in particular the latter) scored below the average (Figure 1.7, Panel B). While Mexico did not participate in the Survey of Adult Skills, the performance of Mexican 15-year-olds on the Programme for International Student Assessment (PISA) mathematics tests remains poor by international standards (Figure 1.7, Panel A) – despite significant progress in recent years. 15-year-olds in the United States also perform slightly below the OECD average, while the numeracy skills of students in Canada are above average.

2. The 22 OECD countries/regions are: Australia, Austria, Canada, the Czech Republic, Denmark, Estonia, Finland, Flanders (Belgium), France, Germany, Ireland, Italy, Japan, Korea, the Netherlands, Norway, Poland, the Slovak Republic, Spain, Sweden, the United Kingdom (England and Northern Ireland), and the United States.

Figure 1.7. Skills proficiency, Canada, Mexico, United States and OECD



a) Adults in the "no information" category were not able to provide enough background information to impute proficiency scores because of language difficulties, or learning or mental disabilities (referred to as literacy-related non-response).

b) Average = average of 22 OECD countries/regions that participated in the OECD Survey of Adult Skills (PIAAC, 2012).

Source: Programme for International Student Assessment (PISA, 2012); Survey of Adult Skills (PIAAC) (2012).

21. The average/relatively low level of skills in North America is of particular concern given the rapid changes that are occurring in the demand for skills. Substantial transformations are occurring in the sources of job growth and the types of jobs that are being created - driven by a mixture of economic and social developments, increased globalisation, technological advances and demographic changes. For the United States (and to a lesser extent Canada), there is substantial evidence to show that routine tasks have been increasingly assumed by computers and robots and/or off-shored to countries with lower wages, resulting in a declining share of routine occupations. At the same time, technological change, which is complementary to the abstract, creative, problem-solving and co-ordination tasks performed by highly-educated workers, has led to an increase in demand for high-skilled workers.

22. These trends have therefore resulted in a polarisation of job growth into both high- and low-skilled jobs, with a hollowing out of the middle (Autor, Katz, and Kearney, 2006; Green and Sand, 2014). In the United States, there is substantial evidence to show that these trends have contributed to rising earnings and income inequality, as the supply of educated workers has not kept pace with the rise in demand (Juhn, Murphy and Pierce, 1993; Juhn, 1999; Goldin and Katz, 2008; Autor, 2014). In Canada, the supply of skills has increased more rapidly, however technological change and outsourcing are still among the main culprits behind rising inequality (Fortin et al., 2012). In Mexico, credit for any reductions in inequality goes at least in part to the up-skilling of the workforce (Krozer and Moreno-Bird, 2014).

23. The following three country-specific chapters discuss these short-term and long-term challenges in more depth, as well as notable policy reform experiences. The final chapter then pulls together the discussion and identifies the key policy issues going forward.

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Chapter 2

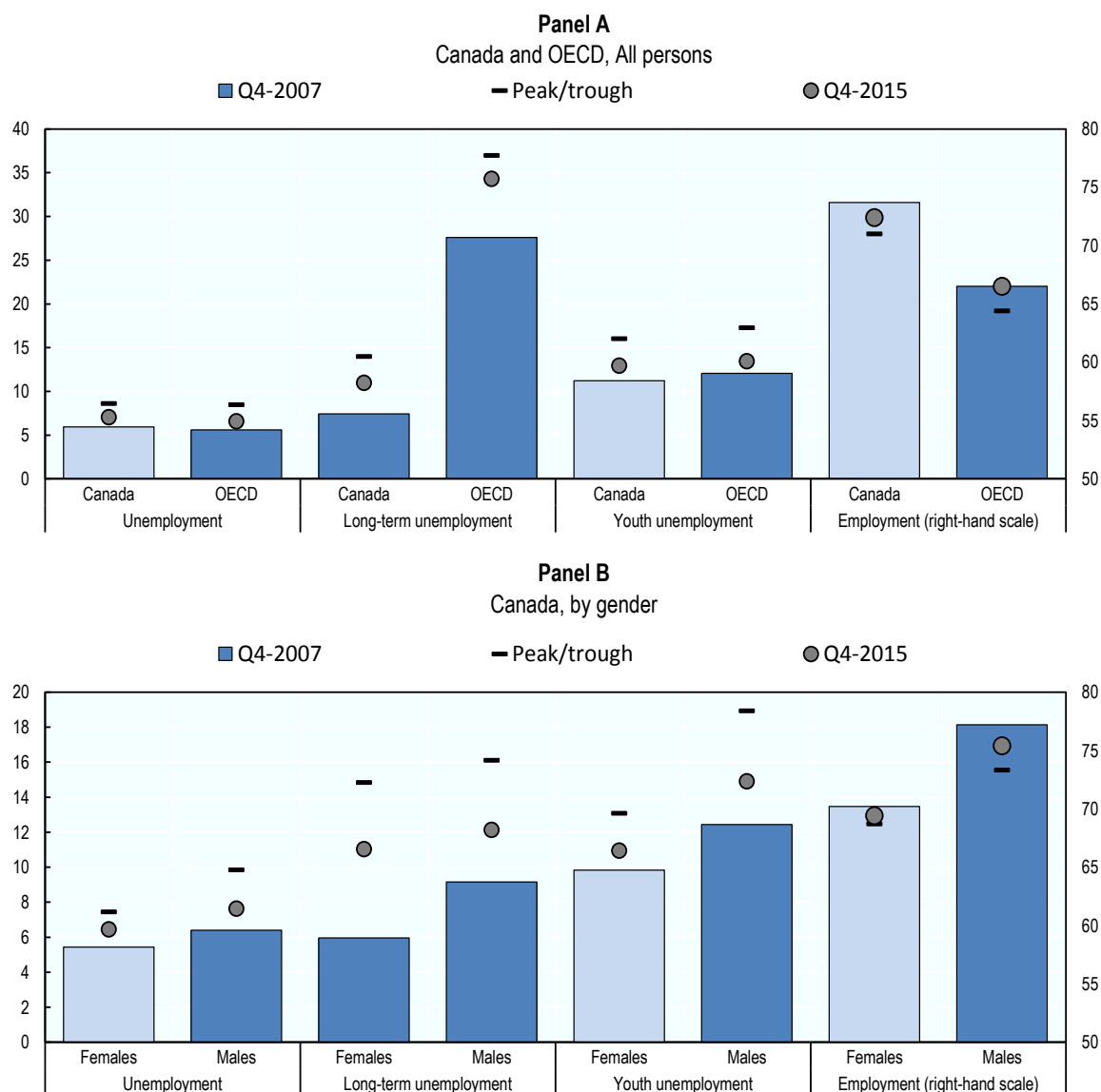
Canada's labour market: Challenges and prospects

How has the labour market weathered the crisis?

24. Despite the high degree of openness and heavy exposure to the US housing and auto sectors, Canada's economy was less affected by the 2008-2009 global financial crisis than most other OECD countries, and has rebounded more strongly since then. Consequently, labour market conditions deteriorated less than in many other OECD economies, and employment and unemployment generally have been gradually returning to their pre-crisis levels. Although still 1.3 percentage points below its pre-crisis level (fourth quarter 2007), the employment rate among workers aged 15-64 has recovered just over half of the drop observed since the start of the crisis, and stood at 72.4% in the fourth quarter of 2015 (Figure 2.1, Panel A). At 7.0%, unemployment was 1.1 percentage points higher than the pre-recession low, and is expected to decrease further to 6.4% by late 2017 (OECD, 2015a). Therefore, the labour market in Canada has performed relatively well in recent years, partly due to a boom in natural resources exports. This advantage however is diminishing with the recent sharp decline in global crude oil prices that is taking a toll on the provinces that rely most heavily on energy production.³ When looking at the gender dimension, Canadian men were harder hit than women and their unemployment rate remained higher than women by 1.2 percentage point in the fourth quarter of 2015⁴ (Figure 2.1, Panel B).

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3. The declines in business investment in the oil and gas sector have been felt most dramatically in the major oil-producing provinces of Alberta, Saskatchewan, and Newfoundland and Labrador. In December 2015, paid employment in Alberta had fallen by about 65,000 since October 2014 with over 95 per cent of these positions lost in industries directly related to the oil sector. In 2015, unemployment in Alberta increased from 4.6% to 7.0%. The unemployment rate increased to 7.4% in January 2016, which was the first time since the late 1980s that it was above the national rate. In response to these unemployment shocks, the federal Government has proposed to make Employment Insurance (EI) more accessible as a means for support. Notably, the programme will reduce minimum hour requirements for new entrants and re-entrants to the labour market and decrease the required waiting period from two weeks to one week. Additionally, those in 15 of Canada's hardest hit regions will have their EI benefits extended by between 5 weeks, up to a maximum of 50 weeks of benefits, and offer up to an additional 20 weeks of EI regular benefits to long-tenured workers, up to a maximum of 70 weeks of benefits.
 4. Other vulnerable groups in the Canadian labour market include recent immigrants, indigenous people and low-educated persons, but they lie outside the scope of Chapter 2, except that the final section discusses workers with inadequate skills.

Figure 2.1. Key labour market indicators,^a Canada and OECD,^b Q4 2007-Q4 2015



Note: The age groups are as follows: 15-64 for employment and unemployment, 15-24 for youth unemployment, and the total population for long-term unemployment. For long-term unemployment in Panel B, Q4 2007 data refers to 2007 and Q3 2014 refers to 2013. Long-term unemployment refers to unemployment of 1 year or more.

- a) Unemployment is measured as a percentage of the labour force; long-term unemployment as a percentage of all unemployed, youth unemployment as a percentage of the youth labour force; and employment as a percentage of the working-age population.
- b) OECD is a weighted average for OECD countries.

Source: OECD Short-Term Labour Statistics Database, <http://dx.doi.org/10.1787/data-00046-en>.

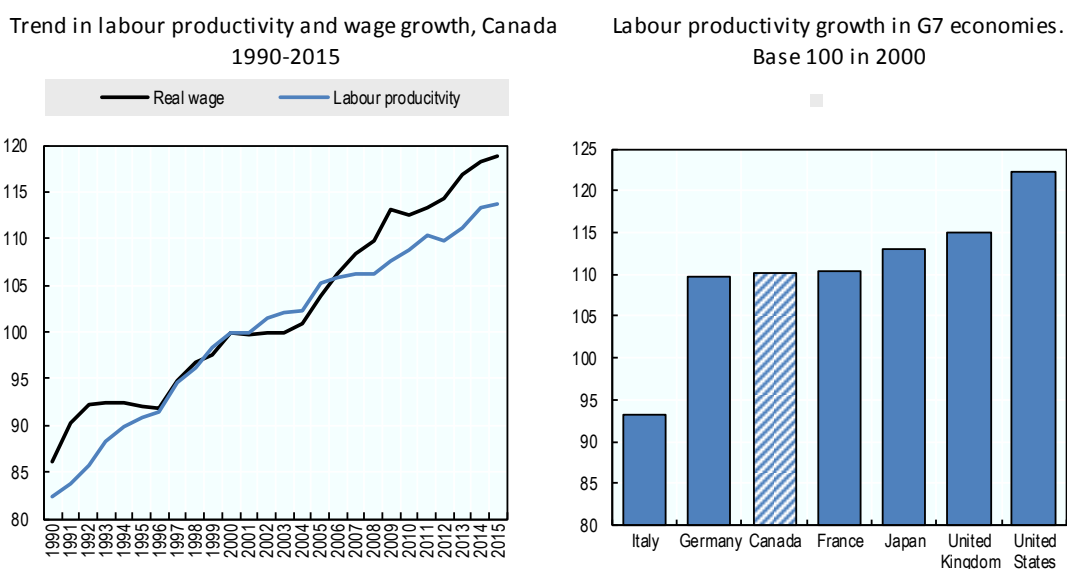
25. While the share of the unemployed Canadians who have been looking for a job for one year or more rose by more than 85% at its peak in the third quarter of 2011, this was from a very low base (7.4% in quarter 4 of 2007) and, even then, Canada's long-term unemployment rate (14.0%) remained significantly below the OECD average (36.2%). Since then, the long-term unemployment rate has declined by 3 percentage points to 10.9% in the fourth quarter of 2015, well below the OECD average (35.6%).⁵

5. OECD estimates of the incidence of long-term unemployment rates differ slightly from national estimates because the OECD calculation is based on: (i) the share of unemployed persons for whom

26. Young people in Canada, as in other OECD countries, experience greater difficulties in the job market than other individuals, and they were also severely hit by the 2008-2009 economic crisis. The youth unemployment rate rose from 11.2% prior to the crisis to 16.0% at its peak in the third quarter of 2009. By the fourth quarter of 2015 youth unemployment had declined by 3.0 percentage points to reach 12.9%. This compares favourably to the current OECD average youth unemployment rate of 13.4%.

27. After rising significantly in the six years to 2010, real wage growth has slowed down in recent years (Figure 2.2, Panel A). Wage adjustments have played an important role in helping the labour market weather the deep cyclical downturn, but labour productivity growth in Canada has nevertheless lagged behind the performance of some of its important trading partners, thus hurting Canadian competitiveness. Canada's labour productivity growth ranked fifth among the G7 countries, behind the United States, the United Kingdom, Japan and France (Figure 2.2, Panel B). Both macroeconomic policies and structural reforms (e.g., overcoming skills shortages in key sectors of Canada's economy, see below) have important roles in ensuring that the productive capacity of Canada's labour force is effectively utilised. Specific policy levers for strengthening productivity performance in Canada include reforming tertiary education, improving the design of innovation policies and developing a skilled workforce (OECD, 2012, 2014a).

Figure 2.2. Trends in labour productivity and real wages growth in Canada, 1990-2015



- a) Total wage bill divided by total hours worked of employees in real terms (deflated using the consumer price index).
- b) Real wage divided by total hours worked.

Source: OECD calculations based on OECD (2016), OECD Economic Outlook, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2016-1-en.

28. Looking ahead, the Canadian economy is expected to recover from brief contraction in the first half of 2016, which was mainly caused by a sharp decline in business investment due to the sharp fall in oil prices. Economic growth will reach 2.3 per cent in 2017, largely driven by non-energy exports, which will benefit from the lower Canadian dollar and stronger export market growth (OECD 2015a).

an unemployment spell duration valuable is available who have been jobless for a year or longer (i.e. the denominator excludes observations with no measured spell length); and (ii) centred, 3-quarter moving averages.

Preparing for the future: Strengthening labour utilisation, job quality and investments in skills

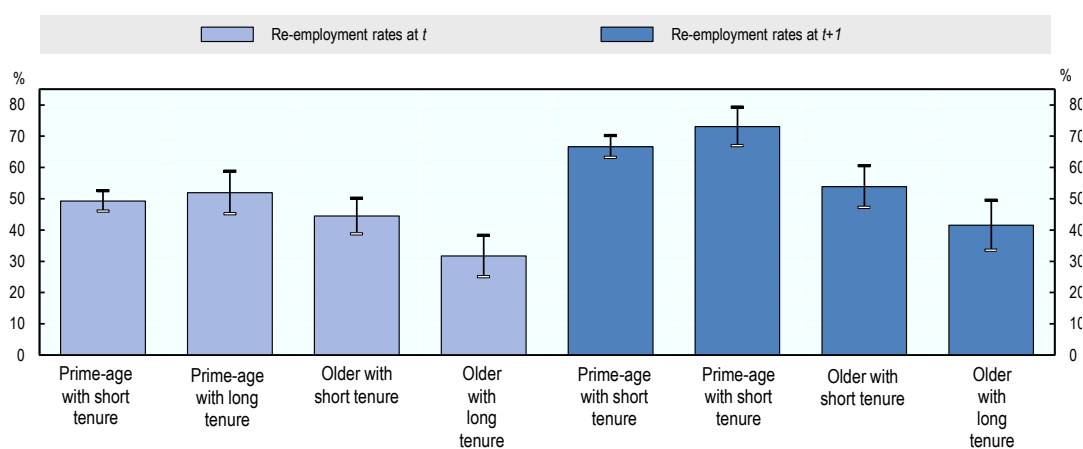
29. Notwithstanding the strong labour market performance in recent years, Canada faces important challenges, stemming in part from demographic change. The aging of the Canadian population is soon set to accelerate with the ratio of the elderly to the working-age population expected to nearly double over the next 20 years (Department of Finance 2012). In combination with the challenges of continued globalisation, changing nature of work and skill demands, boosting labour force participation of under-represented groups and ensuring a skilled workforce will be critical to sustain future increases in living standards.

Strengthening labour utilisation

Older workers

30. Labour market participation rates of older Canadian workers aged 55-64 are relatively high in comparisons with many other OECD countries. However, once unemployed, older workers often face challenges in reintegrating into the labour market. In Canada, for workers with long job tenure who involuntarily lose their job for economic reasons, i.e. firm closure or downsizing, the re-employment rate within one year is only 32% for older workers compared with 52% for prime-age workers (Figure 2.3). Additional evidence suggests that the poor re-employment rates in turn have led to large numbers of long-tenured older workers retiring early, adding to ageing-related social and fiscal pressures and lowering potential growth (Finnie et al., 2011).

Figure 2.3. Re-employment prospects of displaced workers by age groups



Source: OECD calculations using SLID data, years 2000 to 2010.

31. Recognizing that older workers have valuable skills and knowledge to contribute to the economy and that, unemployed older workers often face challenges in reintegrating into the labour market, the Government of Canada launched the Targeted Initiative for Older Workers (TIOW) programme in 2007. TIOW is a federal-provincial/territorial (F-P/T) cost-shared initiative that provides unemployed, older workers (typically age 55 to 64) living in small, vulnerable communities of 250 000 inhabitants or less, with group-based skills training and employment assistance services. With relatively modest investment, TIOW has been successful. All phases of evaluation show positive results with approximately 75% of clients finding employment post-participation. As of June 2016, approximately 42 000 unemployed older workers have been targeted by provinces and territories for TIOW participation. In the current renewal period (April 1, 2014 to March 31, 2017) eligibility criteria were broadened to include

communities experiencing skills mismatches and/or unfulfilled employer demand, so that communities with tighter labour markets can participate in the Initiative. Federal investment since the programme's inception to March 31, 2017 represents USD 267 million.

32. Poor post-displacement earnings also play a factor in discouraging older workers to re-enter the labour market. For instance evidence from Canada suggests that workers with long-tenure who manage to find new jobs lose about 60% of their annual earnings, more than workers with medium-tenure (OECD 2015b). Wage Insurance has received attention as a possible form of additional compensation that is targeted at large earning losses which persist even after displaced workers find new jobs, but there is little experience with operating such schemes (Riddell, 2011; and Jones, 2009).

33. More generally, the relatively few legislative restrictions on reducing employment within their firms make Canadian worker more vulnerable to experiencing job loss than their counterparts in other countries (OECD 2015b). In this context, the Work-Sharing programme can provide a useful incentive for employers experiencing a temporary reduction in business activity to retain valuable employees by temporarily reducing working hours. The recent proposal in Budget 2016 (implemented as of April 2016) to extend the maximum duration of Work-Sharing agreements from 38 weeks to 76 weeks across Canada to help employers and their workforce adapt to changing economic conditions is welcomed⁶. Extended Work-Sharing agreements can potentially help employers retain skilled employees and avoid the costs of recruiting and training new employees when business returns to normal levels. They also enable employees to continue working and maintain their skills while supplementing their wages with EI benefits for the days they are not working.

Youth

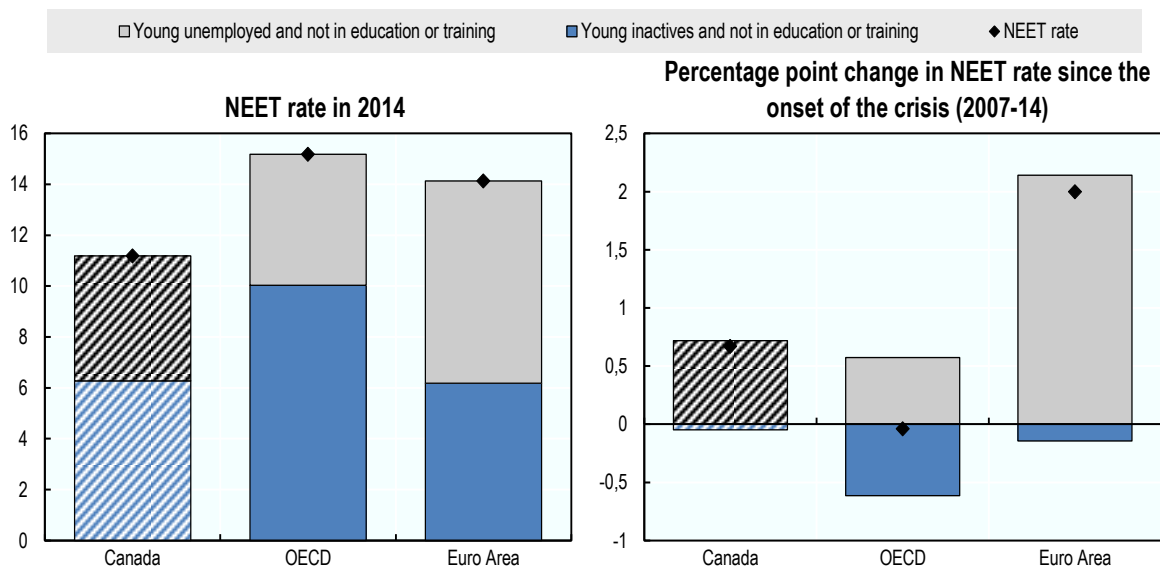
34. While high youth unemployment due to the economic downturn is an important issue to address, a more persistent and worrying issue is the rise in the number of young people who are disconnected from education and the labour market altogether – i.e. the share of youth neither in employment nor in education and training (NEET). Over the six years up to 2014, this share increased by about half a percentage point to reach 11.2%, with youth not in the labour force (15 to 24 year olds) making up the largest part of it (56%) (Figure 2.4, Panel A). Even though, the NEET rate barely increased in the OECD area as a whole during the same period, it is still lower in Canada than the OECD average. Most notably, the NEET rate in Canada has increased not only because of an increase in the number of youth unemployed but also because of an increase in inactivity especially among young men (Figure 2.4, Panel B). This contrasts with the OECD average in which the rise in youth unemployment was associated with a decline in inactivity among youth. Some inactive youth may have chosen to withdraw from the labour market – notably, young women engaged in child bearing and rearing.

6. This temporary policy is applicable for all employers across Canada affected by the downturn in the commodities sector.

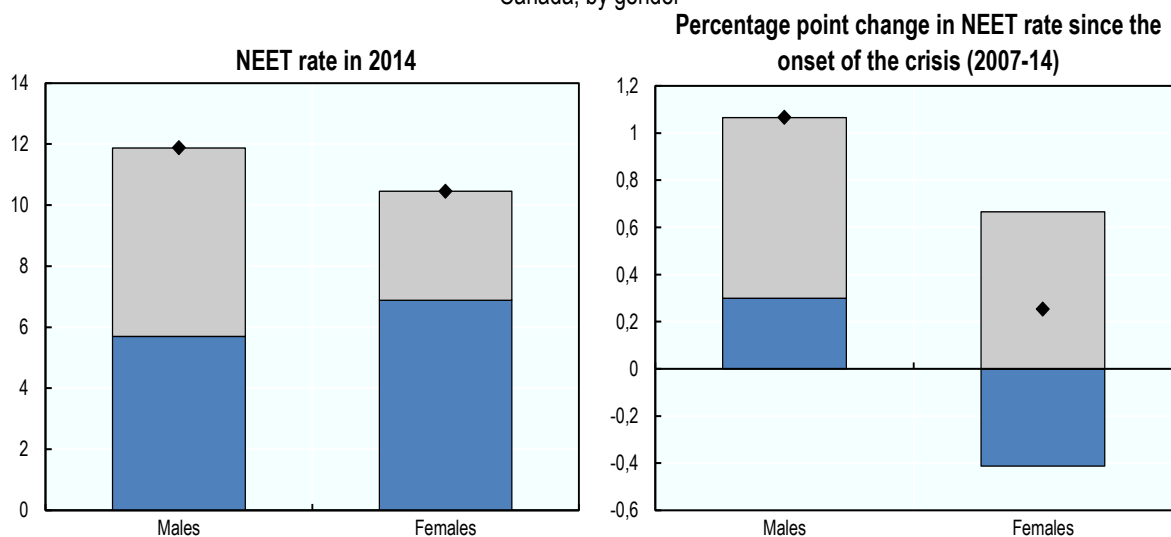
Figure 2.4. Youth neither in employment nor in education or training (NEETs), Canada, Euro area and OECD, 2007-2014

Percentage of population aged 15/16-24

Panel A.
Canada, Euro Area and OECD



Panel B.
Canada, by gender



Note: OECD is the weighted average of 32 countries (excluding Chile and Japan).

Source: OECD (2015), Education at a Glance 2015: OECD Indicators, OECD Publishing, Paris, <http://dx.doi.org/10.1787/eag-2015-en>.

34. Strengthening initial investments in education and training and improving opportunities to gain relevant workplace experience can help younger workers to gain a foothold in the labour market. Recent measures announced in the 2016 federal Budget include a greater focus to provide young Canadians with co-op placements and work-integrated learning opportunities with a focus on high-demand fields, such as science, technology, engineering, mathematics and business. The Government of Canada invests an average of CAD 330 million annually in the Youth Employment Strategy initiative. To expand employment opportunities for Canadians, Budget 2016 proposes to invest an additional CAD 278 million in 2016-2017. Budget 2016 also proposes to establish an Expert Panel on Youth Employment to assess the barriers faced by vulnerable youth in finding and keeping jobs, and to examine innovative practices used by governments, nongovernmental organisations and employers both at home and abroad to improve job opportunities for vulnerable youth⁷.

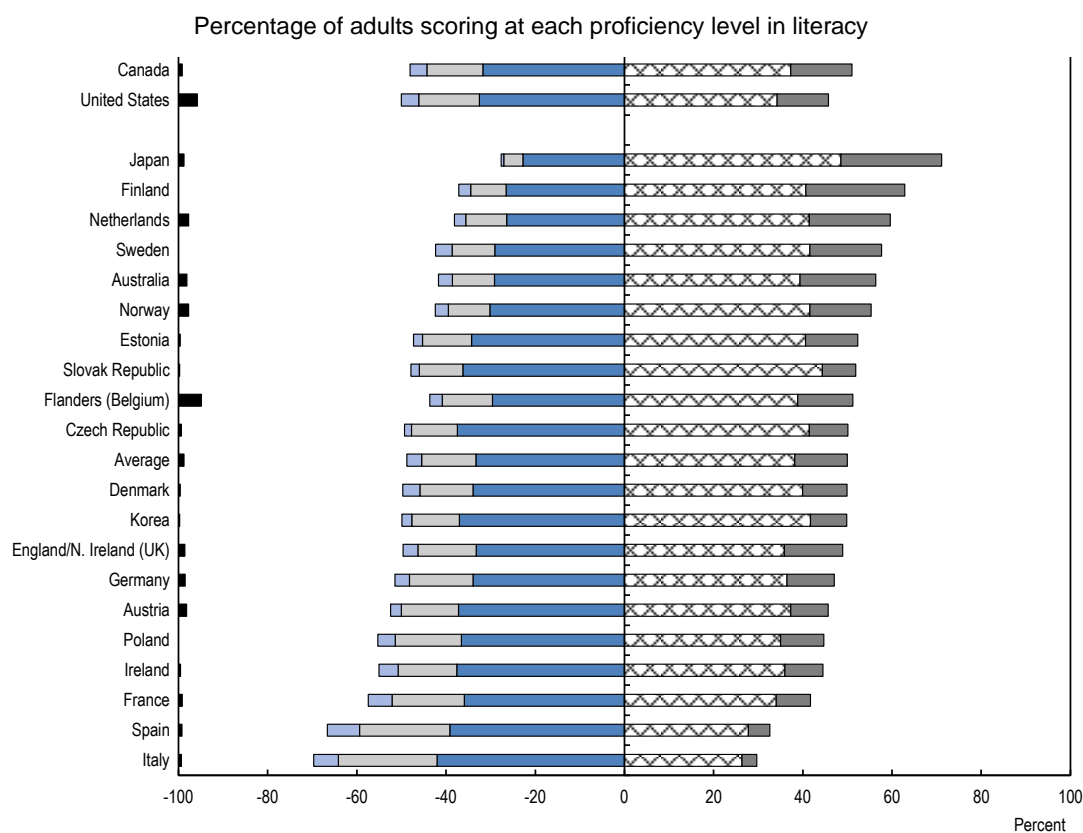
Addressing skills gaps and mismatch

Low literacy levels can limit productivity and the potential for skill upgrading

35. Strong literacy and numeracy skills are necessary to perform well in a modern, globalised information-based economy and imperative in utilising the full potential of the workforce. Canadian adults perform close to the OECD average in terms of their numeracy, literacy and their problem solving skills in technology-rich environments, according to the Survey of Adult Skills (PIAAC, 2012). However, compared to the OECD average Canada has a higher proportion of its population at both the high and the low end of the proficiency scales (see Figure 2.5 for proficiency in literacy). Some 13.7% of adults in Canada (aged 16-65) attain the two highest levels of proficiency in literacy (Level 4 or 5) slightly higher than the average of 11.8% of adults in all participating countries and similar results are obtained in numeracy and problem solving in technology-rich environments. At the other end of the spectrum, some 16.4% of adults in Canada attain only Level 1 or below in literacy proficiency, compromising their likelihood of being in employment and the level of their earnings.

7. Over the course of the next year, the Government will also develop and establish a Prime Minister's Youth Advisory Council, consisting of young Canadians aged 16-24 from diverse communities and from all regions of Canada.

Figure 2.5. **Literacy proficiency among adults, Canada and OECD, 2012**



Notes: Adults in the missing category were not able to provide enough background information to impute proficiency scores because of language difficulties, or learning or mental disabilities (referred to as literacy-related non-response).

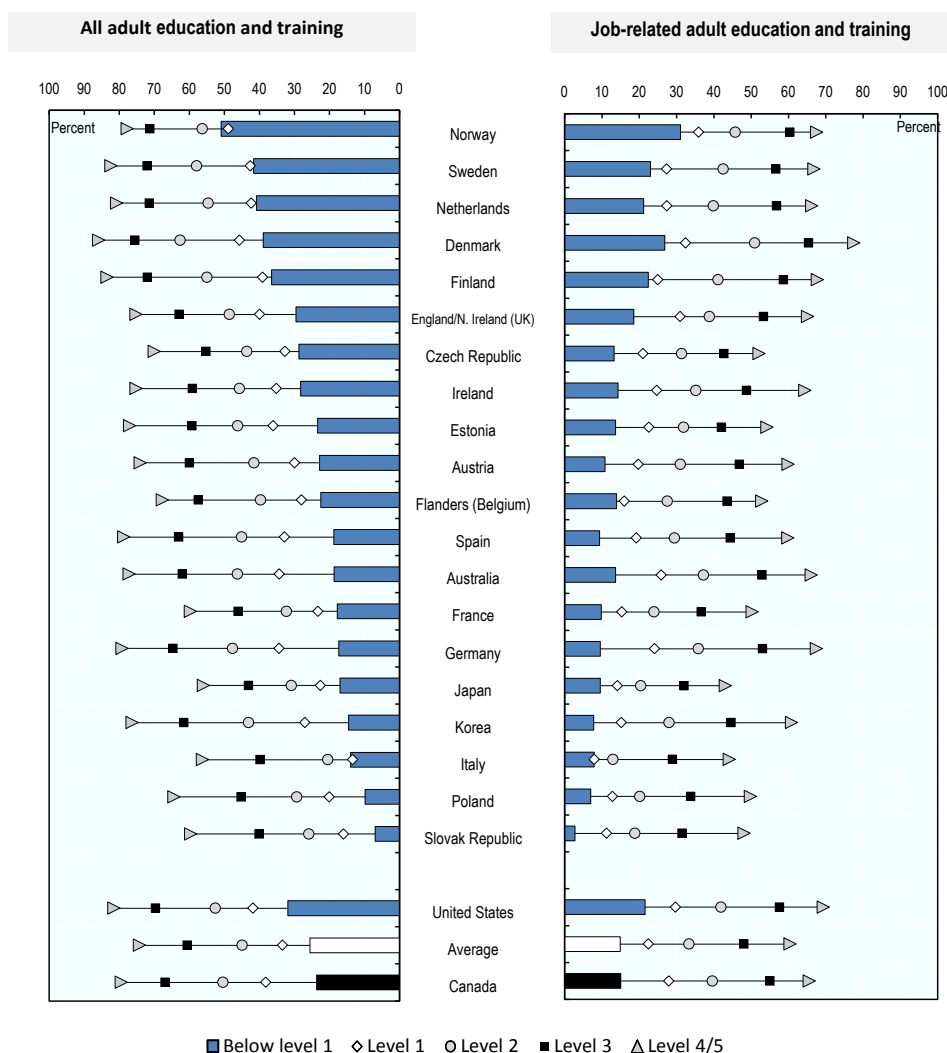
Source: Survey of Adult Skills (PIAAC) (2012), Table A2.1

36. This performance reflects to a large extent educational attainment. This is relatively high in Canada due to the more than 50% of individuals aged 25-64 that hold a tertiary degree, but the share of individuals performing poorly in the survey is very high among those without a high school degree (41% - more than twice as many than among the general population). The size of the foreign-born population also affects average outcomes. In the case of Canada, the immigrant population is both proportionately larger and is more highly educated than on average in other OECD countries. Nevertheless, the share of immigrants performing poorly in literacy and numeracy is 10 percentage points higher than among the general population.

37. Life-long learning also plays a key role in building and keeping skills beyond initial education. In particular, it plays a key role in reducing skill depreciation and obsolescence. Unfortunately, participation in training tends to be low among those that would benefit the most from it – the low-skilled – and Canada is no exception to this. About 80% of the most skilled individuals participated in adult education or training in the year prior to when the PIAAC survey took place and about 70% took part in job-related education or training (Figure 2.6). But these proportions fall to 24% and 15%, respectively, for those with a low level of literacy proficiency, highlighting the need to provide better training opportunities for the low-skilled groups in the population.

Figure 2.6. **Participation rate in adult education, by literacy proficiency levels, Canada and OECD, 2012**

Percentage of adults who participated in adult education and training during year prior to the survey, by level of proficiency in literacy



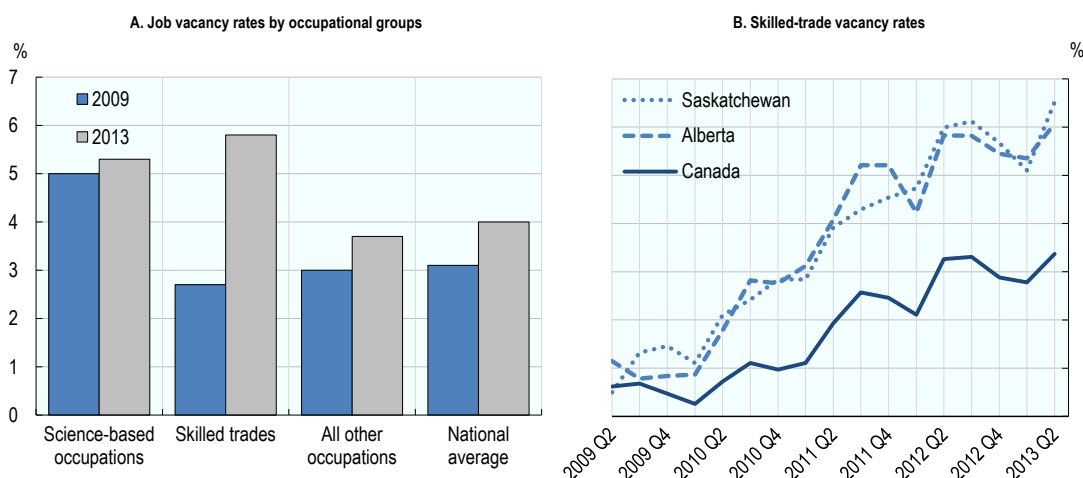
Source : Survey of Adult Skills (PIAAC) (2012), Table A5.7 (L).

Source: Survey of Adult Skills (PIAAC) (2012), Table A5.7 (L).

Skills shortages

38. Skill imbalances between unemployment and job vacancies have risen over the recovery, suggesting misalignment between the competences of the unemployed and those required by employers (Department of Finance 2014). According to the Bank of Canada’s Business Outlook Survey, some 20% of large firms reported labour shortages at the beginning of 2016, up from a low of 10% during the recession but below the highs of 40% set just before the recession (Bank of Canada, 2016). Recruitment difficulties have been particularly severe in skilled trades occupations and especially so in Alberta and Saskatchewan (Figure 2.7). However, declines in commodity prices since highs during mid-2014 have reduced labour market tightness across sectors, including in skilled trades occupations in Alberta and Saskatchewan, where job vacancy rates declined over 2015 (source: Job Vacancy and Wage Survey). While demand appears to have slowed, population ageing could put labour supply pressures on these occupations over the medium term.

Figure 2.7. Job vacancy rates by occupational groups and skilled-trade vacancy rates, 2009-2013



Note: The job vacancy rate is the number of online job postings divided by labour demand, i.e., online postings plus employment.

Source: Department of Finance (2014), Jobs Report: The State of the Canadian Labour Market and Burleton, D. et al., Jobs in Canada, Where, What and For Whom, TD Economics Special Report, 22 October, 2013.

39. A high-quality and an effective apprenticeship system can play an important part in providing practical skills and knowledge necessary to practise a trade, and for better aligning skills acquisition with skill needs. Overall, the share of people enrolled in apprenticeship programmes in Canada appears to be relatively small compared with other countries for which information is available (Figure 2.8).⁸ The number of registrations in apprenticeships has doubled from 2000 to 2011.

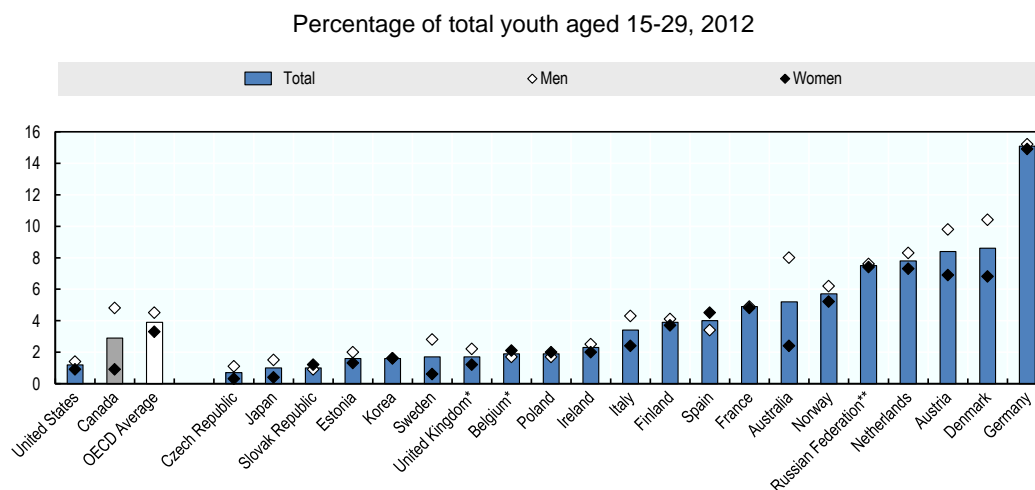
40. However, apprenticeship completion rates have remained flat at approximately 50 per cent. Research shows that apprenticeship completers earn more and have better job stability and higher job satisfaction. There can be a number of barriers to completion, including: difficulties finding apprenticeship positions in the full scope of the trade and the opportunity cost when an apprentice must leave an employer to complete technical training components. Nevertheless, non-completion is complex as many apprentices who do not complete are able to find good, well-paying jobs based on the training they received. The Red Seal Program, which develops interprovincial standards for 56 Red Seal trades, provides an industry standard and a good base for mobility of certified tradespeople between provinces and territories. However, there can be substantial variation among provincial/territorial apprenticeship systems that poses challenges for employers to recruit and a disincentive for apprentices to move for on-the-job training. To address these issues, federal, provincial and territorial governments have committed to harmonizing apprenticeship training requirements for 30 Red Seal trades in most jurisdictions by 2020.⁹ Representing close to 90 per cent of apprentices, this initiative will facilitate the movement of skilled trade apprentices across the country and support improved completion rates.

8. The data on participation in apprenticeship programmes in Figure 2.8 comes from the OECD Survey of Adult Skills (PIAAC) and is based on the self-reporting of adults in a household survey. It may thus be somewhat imprecise. One advantage of the PIAAC data is that it is based on the same sequence of questions in each of a considerable number of countries, and so the data are comparable across these countries.

9. Due to its distinctive apprenticeship system, Quebec participates as an observer on the harmonization initiative.

41. Inadequate numeracy and literacy skills may also pose challenges for apprentices, particularly during the in-school part of their training, and can contribute to non-completion of the apprenticeship. Access to remedial education (for example by offering pre-apprenticeship programmes to strengthen mathematics and tool-use skills) could be offered to improve such weaknesses.

Figure 2.8. **Participation in Apprenticeship Programmes**



Note: Results obtained using sample size < 30 observations for totals and < 15 by gender are showed in a lighter colour.

* The PIAAC results for Belgium and United Kingdom refer to Flanders and England/Northern Ireland only, respectively.

** The data from the Russian Federation are preliminary and may be subject to change. Readers should note that the sample for the Russian Federation does not include the population of the Moscow municipal area. The data published, therefore, do not represent the entire resident population aged 16-65 in Russia but rather the population of Russia excluding the population residing in the Moscow municipal area.

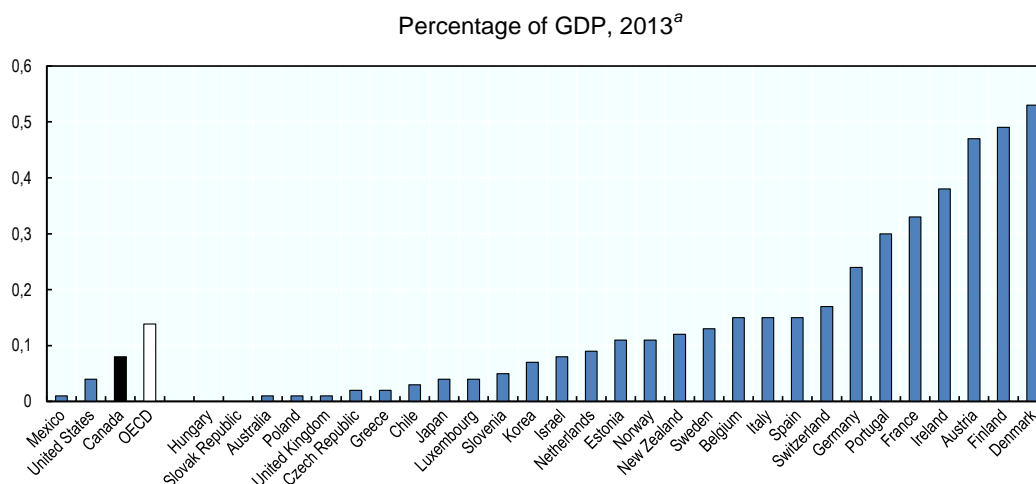
Source: OECD Survey of Adult Skills (PIAAC), 2012.

42. In Canada, expenditure on publicly funded training is relatively low by international standards (Figure 2.9). At the same time, expenditure on employer-sponsored training, most of which is non-formal, has also been declining (Burleton, et al. 2013). Canada has made recent investments through Budget 2016 funding commitments to both its Labour Market Development Agreements (LMDAs) (CAD 125 million) and the Canada Job Fund (CAD 50 million) for fiscal year 2016-2017. The LMDAs represent Canada’s largest investment in labour market programmes. Each year, the Government of Canada provides over CAD 2 billion in LMDA funding to the provinces and territories to support their own programming for skills development and other employment services. Under the LMDAs, employment benefits enable current and former Employment Insurance (EI) claimants to gain skills and work experience through a combination of interventions such as training and wage subsidies, while support measures offer other employment supports such as employment counselling, job search assistance, diagnostic assessments, information on government employment programmes, case management services and the development of career action plans.

43. In 2014, the Government of Canada introduced the Canada Job Grant, which aims to increase employer investment and involvement in training. . The programme provides financial support, on a cost-shared basis, to employers to help Canadians develop the skills they need for available jobs. Employers determine who gets training and what type of training. The government contribution is 2/3, for a maximum of up to CAD 10,000 towards the direct costs of training. Employers are expected to contribute the remaining one-third of the training costs and have a job available at the end of training. Funding for the grant is provided through the Canada Job Fund Agreements. Under these agreements, funding is also provided to support a range of employment programmes and services, including literacy

and essential skills, with priority given to the low-skilled employed and the unemployed not eligible for Employment Insurance benefits. Budget 2016 committed an additional CAD 50 million in 2016-17 for the Canada Job Fund Agreements. Evidence suggests that programmes that were demand-driven and involved employers in the design and delivery of training at the workplace produced more immediate results (ILO 2014). Although employer involvement is strongly supported, it will be important to ensure that it reaches the low-skilled, as training opportunities for them are few (as seen above).

Figure 2.9. Publicly funded training expenditure, Canada and OECD countries, 2013



a) 2012 for France, Korea, New Zealand, Poland and Spain; 2011 for Israel and United Kingdom; 2010 for Greece.

Source: OECD Labour Market Programmes (database), <http://dx.doi.org/10.1787/data-00312-en>.

44. Better labour market information (LMI) can also help to reduce skills shortages by facilitating job matching and informing education decisions. Until recently, the Employment and Social Development Canada website provided no easily accessible information on linking fields of study to occupational outcomes. Moreover, Statistics Canada only began to publish job-vacancy data in 2011, but even then data on occupation and economic-region-was limited. Furthermore, there are no institutional requirements to provide LMI in schools - one of the main weaknesses of Canada's LMI system (Sharpe and Qiao 2006). Statistics Canada's new Job Vacancy and Wage Survey (JVWS) announced in 2014 addresses some of these challenges by filling in important data gaps. It provides better and more detailed quarterly information on vacancies such as occupation, industry and region¹⁰ thus foster better job-matching. Going forward, further investments should be made in improving career counselling services, which can be very cost effective for directing students into the best courses.

45. Labour mobility plays an important role in labour market adjustments in Canada. Indeed, internal labour mobility in Canada is on par with levels observed in the United States (Carey, 2014). Notably there has been a rise in inter-provincial employment (i.e., residing permanently in one province, but working in another) over the past 10-15 years (Laporte, C and Lu. Y., 2013). Nevertheless, a number of barriers continue to exist that constrain adjustment. The government has taken a variety of steps over the years to reduce barriers to labour mobility across provincial borders, including strengthening the Agreement on Internal Trade (AIT) which allows workers in regulated occupations to apply to be certified in the same occupation in another province or territory without having to undergo significant additional training,

10. Other indicators include the minimum level of education and work experience required, the wage or salary offered, whether the vacant positions are full-time, part-time, permanent, temporary or seasonal, the methods used to advertise the vacancies and the duration of recruitment efforts

examination or assessment. Individuals are still required to apply to jurisdictional regulators for certification in their occupation. Prior to the 2009 amendments, regulated workers moving from one province to another faced a wide range of barriers such as additional qualification requirements, re-examination and re-training. Nevertheless, further action should be taken in other areas to facilitate greater labour mobility.

46. Regional dispersion of unemployment rates continue to persist in Canada, indicating that further progress can be made in promoting labour mobility from high-to-low unemployment regions (OECD 2014b), although this should go hand-in-hand with policies that help displaced workers acquire new skills to obtain jobs in fast-growing occupations. A number of studies have identified the Employment Insurance (EI) system as one of the factors affecting labour mobility in Canada. The EI scheme provides incentives for seasonal work in high unemployment regions, where contributions to qualify are shorter and maximum benefits duration longer than elsewhere (Riddell and Kuhn 2010). In 2012, the federal government significantly tightened EI rules based on a worker's history of use of EI benefits. The longer and more frequently jobseekers have previously claimed employment insurance, the broader their job search would have to be and the lower the wages they would have to be willing to accept. It is too early to assess the effects of these changes, though it should be noted that the current Government has announced that these changes will be reversed. Bolder reform options such as introducing experience-rated EI premiums for employers (whereby their contribution rates depend on their past record of laying off workers), could also be pursued.

Improving job quality

47. A focus on purely quantitative labour market aspects neglects job quality. People spend most of their day and a significant part of their life at work. Therefore, job quality is a key determinant of well-being. The 2014 OECD Employment Outlook outlines a broad picture of job quality across OECD countries. This is based on three dimensions that are considered as essential aspects of good-quality jobs: earnings quality (the level of earnings and degree of inequality); labour market security (risk of job loss and income support available); and quality of the working environment (work demands and conditions, and the resources and support available to cope with these demands).

48. Compared with other OECD countries, Canada is higher than the OECD median in two of these three dimensions. It does particularly well with respect to the quality of the work environment and ranks in eleventh place among OECD countries. The index of labour market security is similar to the OECD median as Canadian workers faced a relatively high risk of becoming unemployed in the reference year (2010). However, labour market security is likely to have improved since due to the subsequent decline in the risk of unemployment (OECD, 2014a).

49. Earnings quality is scored only slightly above the median due to the offsetting impacts of relatively high average earnings and wide earnings dispersion. Indeed, as seen in Chapter 1, earnings inequality (as measured by the ratio between the 90th and 10th earnings percentiles) is higher in Canada than the OECD. Increased earnings inequality in Canada is driven by i) the divide in hours worked between higher- and lower-wage earners and ii) a rise in self-employment, as on the whole the self-employed earn less than full-time workers. The latter explains more than one-quarter of the increase. Taxes and benefits reduce inequality less in Canada than in most OECD countries. Prior to the mid-1990s, the Canadian tax-benefit system was as effective as those in the Nordic countries in stabilising inequality, offsetting more than 70% of the rise in market income inequality. The effect of redistribution has declined since then so that taxes and benefits offset less than 40% of the recent rise in inequality. This downward trend in redistribution is largely driven by the reduced role of means-tested transfers: benefit levels fell over time and benefits became less targeted (OECD, 2011).

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CHAPTER 3

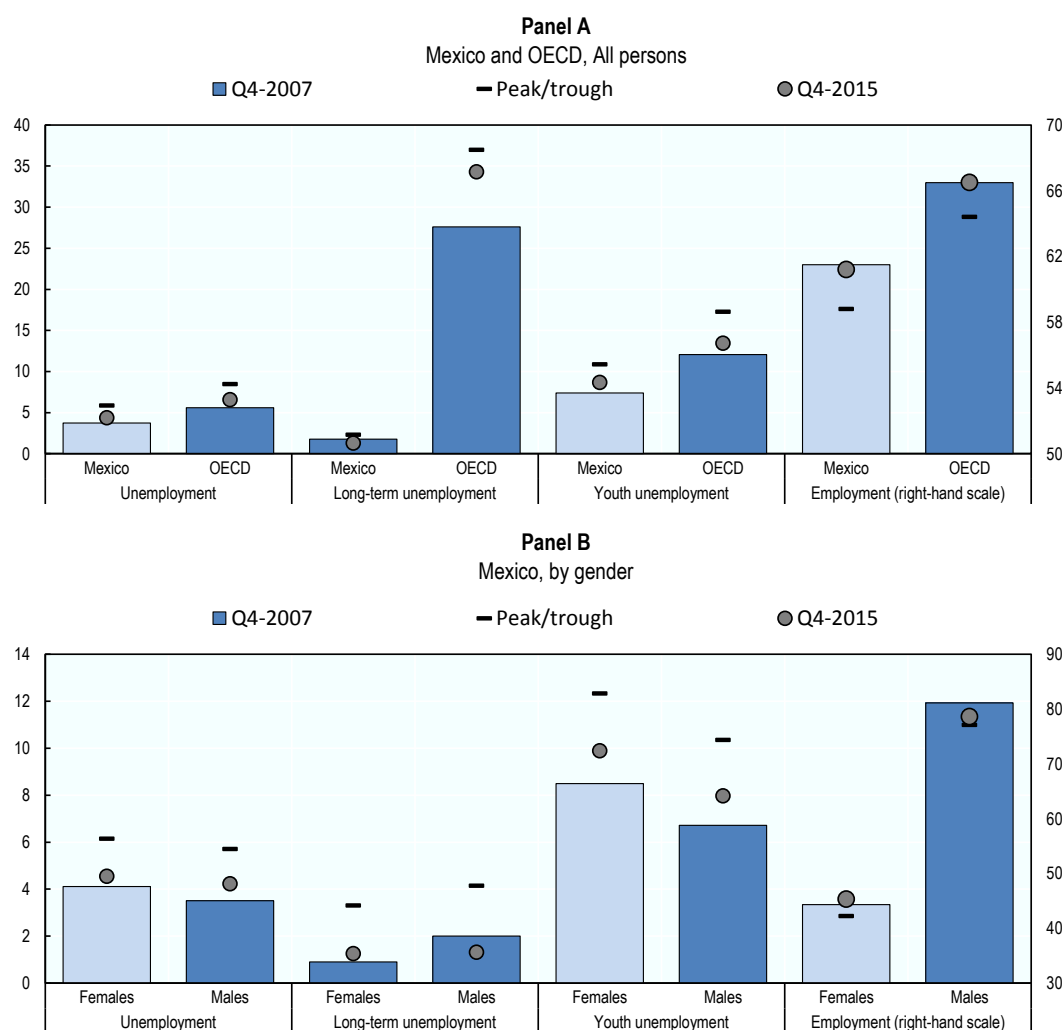
Mexico's labour market: challenges and prospects

How has the labour market weathered the crisis?

50. Mexico was among the countries hardest hit by the recession. With its high trade dependence on the United States, it suffered a large GDP shock as exports plummeted and its terms of trade deteriorated (OECD, 2010; OECD, 2013c). In addition, global deleveraging significantly reduced net capital inflows and resulted in currency depreciation. More difficult access to international financial markets bore down on economic activity (OECD, 2009a; Sidaoui et al., 2010).

51. Yet Mexico made a relatively swift recovery (OECD, 2011a) and the impact of the crisis on the labour market was relatively mild (Figure 3.1, Panel A). While the unemployment rate rose by nearly 60%, this was from a very low base (3.7% in quarter 4 of 2007) and, even at the peak of the crisis, Mexico's unemployment rate (5.8%) remained significantly below the OECD average (8.5%). The unemployment rate has since fallen back to 4.3% in the latest estimates (compared to 6.6% across the OECD on average) and is expected to remain near that level in 2017 (OECD, 2015a). Also noticeable is that men were harder hit by the crisis than women, although women were, and still are, slightly more likely to be unemployed. Women also have significantly lower employment rates than men (Figure 3.1, Panel B).

Figure 3.1. Key labour market indicators,^a Mexico and OECD,^b Q4 2007-Q4 2015



Note: The age groups are as follows: 15-64 age group for employment and unemployment, 15-24 for youth unemployment, and the total population for long-term unemployment. For long-term unemployment in Panel B, Q4 2007 data refers to 2007 and Q3 2014 refers to 2013. Long-term unemployment refers to unemployment of 1 year or more.

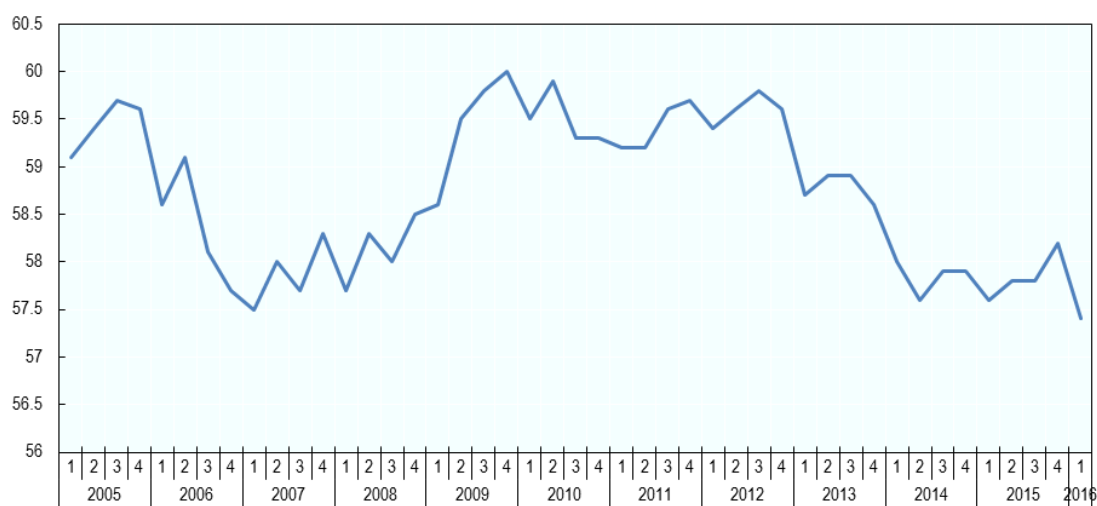
- a) Unemployment is measured as a percentage of the labour force; long-term unemployment as a percentage of all unemployed, youth unemployment as a percentage of the youth labour force; and employment as a percentage of the working-age population.
- b) OECD is a weighted average for OECD countries.

Source: OECD Short-Term Labour Statistics (database), <http://dx.doi.org/10.1787/data-00046-en>.

52. While Mexican youth face a higher risk of unemployment than adults, they were not disproportionately affected by the crisis, nor was there a big difference by gender. The youth unemployment rate rose from 7.4% prior to the crisis to 10.8% at its peak, and has decreased again to 8.3% according to the latest available quarterly estimates. This compares favourably to the current OECD average youth unemployment rate of 13.4%. Employment rates, already low in Mexico, fell to 58.8% during the crisis, but have recovered since and stood at 61.2% in the fourth quarter of 2015. Finally, while long-term unemployment rose during the crisis, it is extremely uncommon in Mexico affecting just 1.3% of the unemployed according to the latest estimates (34.3% across the OECD on average). The lack of unemployment insurance and the very low expenditure on active labour market programmes (OECD, 2013b) are likely to be key explanations for this low incidence of long-term unemployment, with many Mexican job losers moving quickly to the first job they find to sustain themselves and their family, even if it is a low-paid job in the informal sector.

53. The standard employment statistics only partially convey the impact of the crisis on the labour market in Mexico. While the impact on overall employment may have been modest, there has also been an adverse impact on the quality of employment and, in particular, a shift from formal to informal employment. Informal employment in Mexico is counter-cyclical (Duval-Hernández and Orraca Romano, 2009; ILO FORLAC 2014) and, as shown in Figure 3.2, rose from a pre-crisis low of 57.5% to a peak of 60.0% at the end of 2009. In the most recent years, the informality rate has returned to pre-crisis levels and stood at 57.4% in Q1 2016.

Figure 3.2. **Informal employment,^a Mexico, Q1 2005 - Q1 2016**
Percentage of total employment



a) The definition of informal employment is in line with the Seventeenth International Conference of Labour Statisticians (ICLS) "Guidelines concerning a statistical definition of informal employment."

Source: Instituto Nacional de Estadística y Geografía, Indicadores de informalidad laboral <http://www3.inegi.org.mx/sistemas/tabuladosbasicos/tabtema.aspx?s=est&c=33698>.

54. Migration to the United States, traditionally a significant pressure release valve for the Mexican labour market, has gradually declined even before the crisis; indeed, from about 2005 onwards, net migration from Mexico to the United States came to a standstill and even turned negative (Passel, Cohn and Gonzalez-Barrera, 2012). While the crisis (and, in particular, its impact on the construction and service sectors in the United States) have further reduced the employment prospects of (low-skilled) Mexicans in the United States (Alarcón et al. 2008), the reversal in net migration to the United States is part of a longer-term trend reflecting also heightened border enforcements, a rise in deportations, greater risks associated with illegal emigration, the long-term decline in Mexico's birth rate, and improvements in broader economic conditions in Mexico (Passel, Cohn and Gonzalez-Barrera, 2012).

55. Wage growth in Mexico has been mostly negative over the past decade (see Chapter 1). Over the period 2006 to 2012, this closely reflected productivity growth (as measured by GDP per hour worked). However, since 2012, there has been a decoupling between wage and productivity growth. While productivity has been rising, wages have continued on a downward trend since 2012 - although the data for 2015 indicate that this trend might finally be reversing. In addition, productivity remains low by OECD standards. There are many interrelated causes behind Mexico's low productivity, including a large informal sector, institutional rigidities in the labour market and low skills. The Labour Law reform of 2012 contained a range of measures to tackle informality and low productivity (see section on informality below). In addition, Mexico set up a National Productivity Committee in 2013 (as an advisory body to the President) and approved the National Programme to Democratise Productivity (*Programa para democratizar la productividad*). The National Productivity Committee was further strengthened by the Productivity and Competitiveness Law enacted in 2015.

56. Looking ahead, after growing by 2.5% in 2015, real GDP is projected to accelerate in both 2016 and 2017. The economy will benefit from a stronger US economy, the depreciation of the peso, and the easing of problems in the construction sector. The implementation of important structural reforms has also improved the business climate. Consequently, investment is picking up, and manufacturing activity is gradually accelerating, supporting a robust formal job market, boosting household incomes and consumption growth (OECD, 2013a; OECD, 2015a).

Preparing for the future: Strengthening labour utilisation, job quality and investments in skills

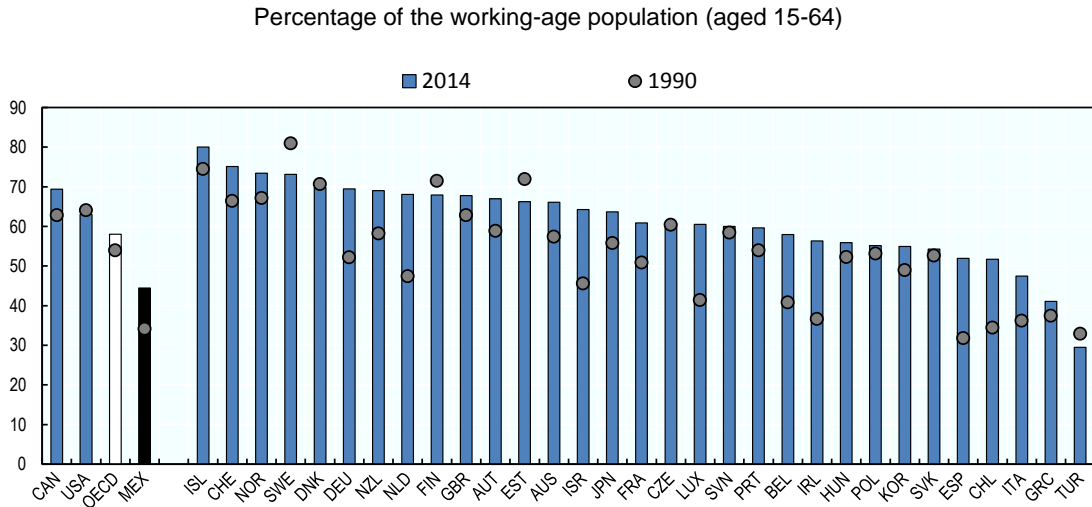
Strengthening labour utilisation

57. The under-representation of certain population groups in the labour market is a significant obstacle to the full exploitation of Mexico's assets and potential. At 61.2%, Mexico's employment rate is one of the lowest among OECD countries, ahead only of Turkey, Greece, Italy and Spain. Ample scope exists to raise labour force participation of women and young people in particular.

Women

58. Mexico's low participation rate largely reflects the low share of women involved in the labour market. At 45.3% (Q4-2015), Mexico's female labour force participation rate is one of the lowest in the OECD area – exceeding that of Turkey and Greece only (Figure 3.3). While the participation rate of women in Mexico has risen moderately during the past two decades, many women still face major obstacles to participating more fully in the labour market. Until very recently, non-pregnancy certificates could be requested by employers as a requirement for hiring, and pregnancy could be used as a ground for dismissal. The 2012 Labour Law reforms have explicitly prohibited any such type of discrimination, and have introduced a number of additional measures to promote female labour force participation, such as: the recognition of teleworking; reductions of the working day by one hour daily for working mothers who are breast-feeding; more flexible maternity leave allowing the transfer of up to four of the six prenatal weeks to afterbirth care; and paid paternity leave. The government has also taken measures to increase the coverage of child care (*Programa de Estancias Infantiles para Apoyar a Madres Trabajadoras*) as well as pre-school services. Research has shown that *Estancias Infantiles* increased women's probability of working and reduced the time they devote to child care. The programme also contributed to women obtaining more stable jobs and it increased their labour incomes (Calderón, 2014). That said, child-related leave entitlements in Mexico are still limited and maternity leave, although paid at 100% of last earnings, lasts just 12 weeks and covers only women in formal employment. Gender roles constitute a barrier to women's (and Mexico's) economic opportunities: at home, Mexican women spend 4 hours per day more on unpaid work than men.

Figure 3.3. Female labour force participation, Mexico and OECD countries, 1990-2014



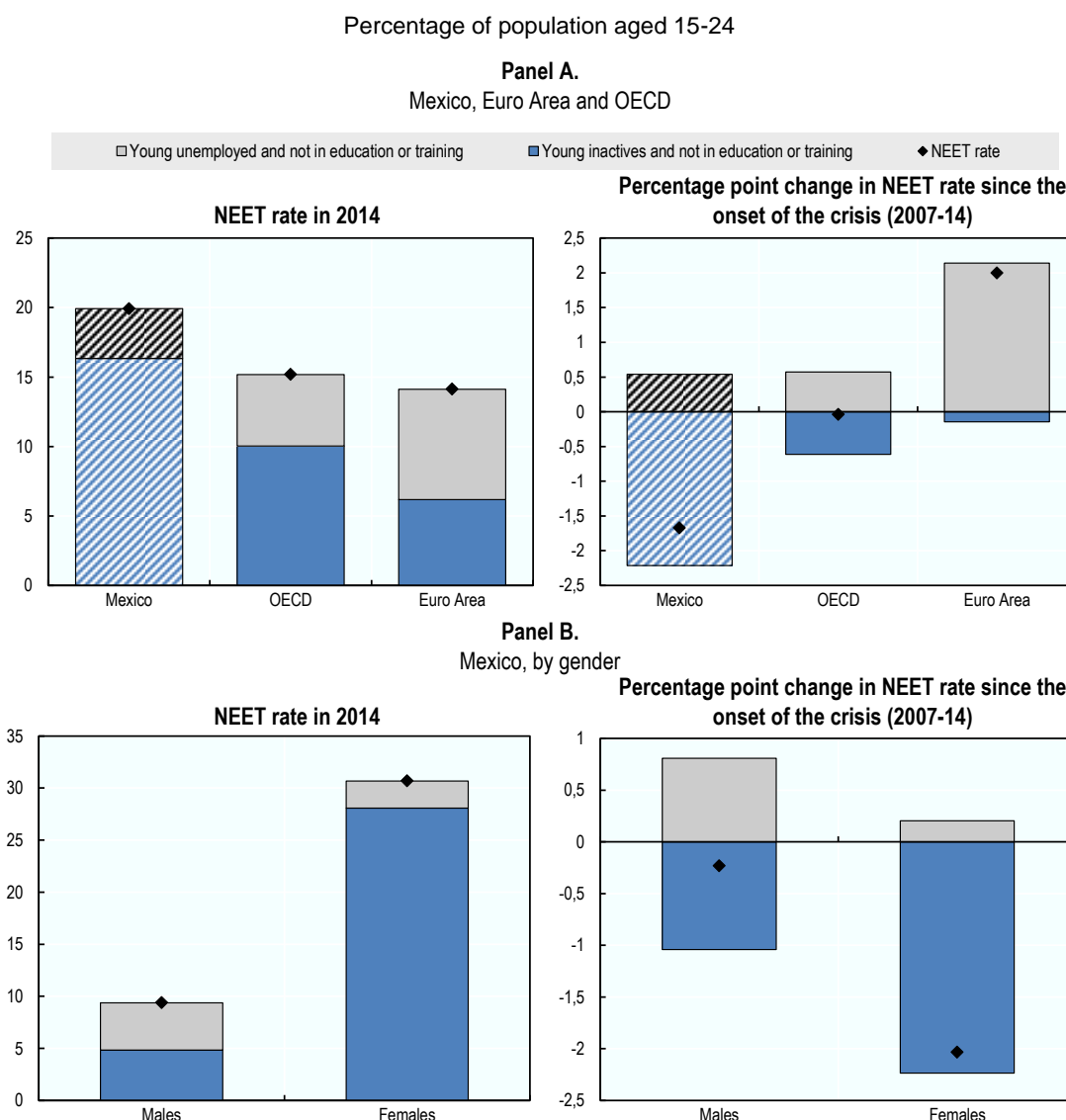
Note: 1990 data for Iceland, Mexico and Switzerland refer to 1991; 1992 for Hungary and Poland; 1993 for the Czech Republic; 1994 for Austria and the Slovak Republic; 1996 for Chile; 2002 for Slovenia.

Source: OECD Employment and Labour Market Statistics Database, <http://dx.doi.org/10.1787/data-00310-en>.

Youth

59. Despite relatively low youth unemployment rates, Mexico has one of the highest NEET (Neither in Employment, nor in Education or Training) rates of the OECD (Figure 3.4). Given the discussion in the previous section, it is not surprising that the NEET rate is particularly high among young women (in 2014, 30.7% of women aged 15-24 were NEET, compared to 9.4% of men of the same age). Although for some youth inactivity will be a choice (e.g. in order to engage in child rearing), Mexico's high NEET rate also reflects the difficulties some young people face in entering and staying in the labour market. These difficulties are closely (although not exclusively) linked to the low level of educational attainment discussed in the next section.

Figure 3.4. Youth neither in employment nor in education or training (NEETs), Mexico, Euro area and OECD, 2007-2014



Note: OECD is the weighted average of 32 countries (excluding Chile and Japan).

Source: OECD (2015), Education at a Glance 2015: OECD Indicators, OECD Publishing, Paris, <http://dx.doi.org/10.1787/eaq-2015-en>.

60. One of Mexico's main programmes to address the NEET challenge is *Becate* – an intervention aimed at un- and/or under-employed individuals aged 16 and over offering them opportunities to enhance their knowledge and skills through dual apprenticeship-type training, work experience, self-employment support or training vouchers. Training lasts between one and three months, during which participants receive a stipend of between one and three minimum wages, as well as financial assistance to cover the costs of transport and the acquisition of education materials. Evaluations of the programme suggest that it has a small, but positive effect on employability (Delajara, Freije and Soloaga, 2013). However, few other programmes are available for youth, and Mexico's expenditure on active labour market programmes (as a proportion of GDP) is the lowest in the OECD area, amounting to just 0.01% of GDP in 2013 (0.59%

across the OECD on average).¹¹ The announcement in 2015 of the *Crédito Joven* programme is therefore a welcome development. This programme offers different types of loans (from approximately USD 3 000 to 150 000) to young people (18-30 years old) who do not necessarily have a credit record, in order to initiate a start-up or consolidate a business.

61. The introduction of initial training contracts and probationary periods by the 2012 Labour Law reform should also help improve the employment prospects of young, inexperienced and low-skilled workers, as they lower the risk for employers in taking on new, young workers whose productivity is initially unknown. In addition, as part of its National Development Plan, the Mexican government has recently introduced a number of measures to try and improve the school-to-work transition, including a website providing labour market information (employment indicators for different professions, including number of women employed, average income, economic sector and geographical location for each job type), as well as information regarding education and training opportunities.

Addressing skills gaps and mismatch

Educational attainment

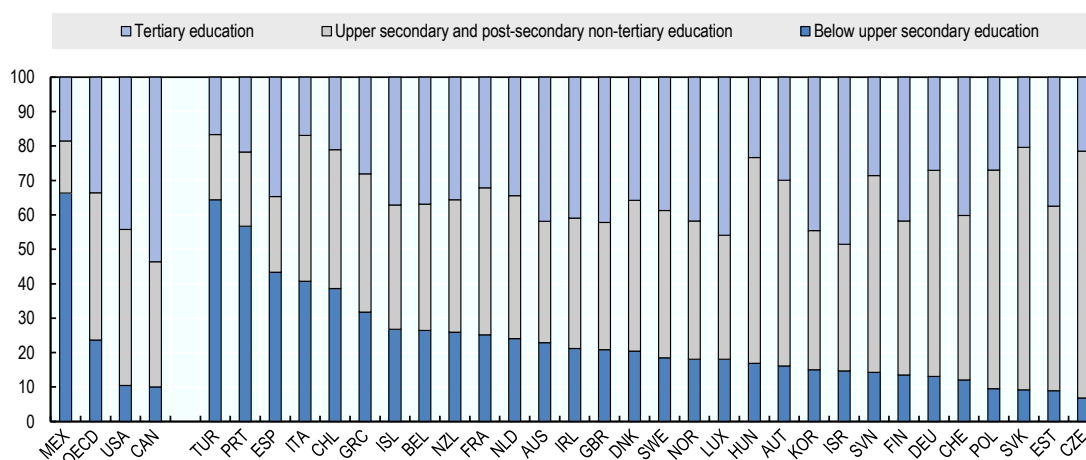
62. Mexico has made significant gains in educational attainment in recent years which have been achieved through a number of successful policy initiatives. Pre-school education was made compulsory in 2009, placing Mexico amongst the OECD countries with the highest rates of school enrolment among 4-year-olds (OECD, 2013a). Between 2009 and 2010, Mexico implemented a national upper secondary school system (*sistema nacional de bachillerato*) aimed at providing a more coherent framework of upper secondary education through: better academic guidance; more education options on offer; improved mechanisms to deliver education (e.g. teacher training, school leadership professionalization, infrastructure, scholarships); and a monitoring system for institutions. In addition, in 2012, upper secondary education was made compulsory, setting a target date for attaining universal coverage by 2022. Progress in educational attainment has also been achieved thanks to Mexico's conditional cash transfer programme *Oportunidades*, which has helped the poor invest in the human capital of their children. The substitution of *Oportunidades* with an enhanced programme named *Prospera* is welcome in this respect, as it adds new education and training dimensions (see below).

63. Despite the progress made, low educational attainment remains a significant barrier to better employment outcomes of Mexico's population. While nearly all students between the ages of 4 and 14 are now in school, enrolments beyond the age of 14 remain low and more effort will be required at the upper secondary school level in particular. As shown by Figure 3.5, the proportion of young adults in Mexico who have attained tertiary education remains considerably below the OECD average. This is partly due to Mexico's high school dropout rates which, at almost 50%, are among the highest in Latin America (OECD, 2015b).

11. Active measures include: training, employment incentives, sheltered and supported employment and rehabilitation, direct job creation, and start-up incentives. Mexico also has the lowest expenditure (as a percentage of GDP) on passive measures, which include: out-of-work income maintenance and support, and early retirement measures.

Figure 3.5. **Educational attainment, Mexico and OECD countries, 2014**

25-34 years old



Source: Table A1.4a from OECD (2015) <http://dx.doi.org/10.1787/eag-2015-en>, Education at a Glance, OECD Publishing 2015.

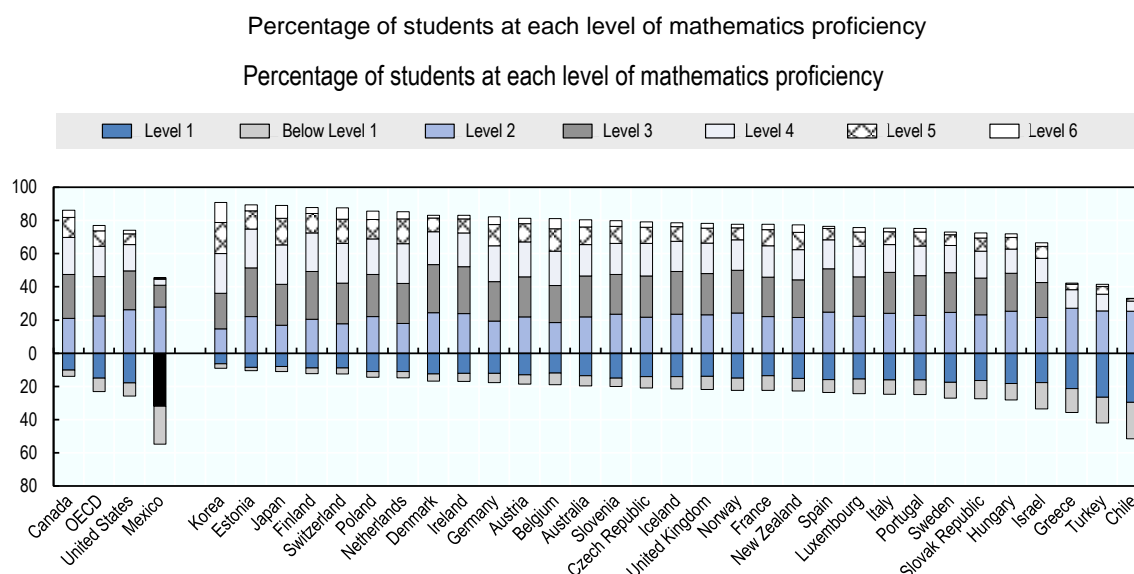
64. Mexico’s high rate of grade repetition – a practice which has been proven to be ineffective and costly – is likely to be an important contributor to high rates of dropout. A much better (and cheaper) way to support poorly performing students would be to provide extra teaching time, taking into account their needs, so that they can catch up with their peers. More generally, the efficiency of the Mexican education system could be improved by rebalancing the amount spent per student in tertiary education, on the one hand, and the amount spent per student at lower levels of the system, on the other. Indeed, as shown by OECD (2015b), Mexico’s public spending on education is highly regressive, with expenditure on university students being four times greater than expenditure on pre-primary, primary and secondary students. Yet investments in lower levels of education (particularly early childhood education and care and which benefit low socio-economic groups) tend to have higher labour market returns. While Mexico has made significant progress in enrolling 4-year-olds in education, more should be done for lower age groups: currently, only 25% of children aged fewer than three in Mexico receive care outside the home, which places the country at the bottom of OECD countries for this age group (OECD, 2015b).

Skills

65. Despite the gains in educational attainment in recent years, the quality of education in Mexico remains low, and this will mute the impact of these gains on productivity growth. Mexico has regularly participated in the OECD’s Programme for International Student Assessment (PISA), a triennial international survey which aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. The latest available data (2012) showed that Mexico had made significant improvements, but remained one of the worst performing countries with 55% of students not achieving the most basic competency level in mathematics (23% across the OECD on average), and less than 1% reaching the highest level (13% across the OECD on average) – OECD (2014a) and Figure 3.6.¹²

12. Unlike the United States and Canada, Mexico did not participate in round 1 of the OECD’s Survey of Adult Skills (PIAAC, 2012). Comparisons of the skill proficiency (and use) of the Mexican adult population with other OECD countries are therefore not yet possible. However, Mexico has signed up for round 3 of the Survey of Adult Skills and results will be available towards 2018-2019.

Figure 3.6. Proficiency in mathematics, Mexico and OECD, 2012



Note: Countries and economies are ranked in descending order of the percentage of students at Levels 2, 3, 4, 5 and 6.

Source: OECD, PISA 2012 Database, Table I.2.22 <http://dx.doi.org/10.1787/888932935572>.

66. The PISA results highlight the poor quality of Mexican education and offer one explanation of low productivity in the country. In particular, skill deficits limit formal sector employment (OECD, 2013c). A range of reforms have been implemented, or are in the pipeline, to try and address the poor quality of education. Like in other Latin American countries, the average school day in Mexico is very short, and efforts are underway to implement full-time schools at the national level. To improve the quality of teachers entering the profession, Mexico recently introduced New Protocols for Entering Public Initial Training Programmes. In addition, the Secretariat of Labour and Social Affairs (STPS) and the Secretariat of Economy have established measures aimed at promoting the productivity among micro and small businesses. These actions include training programmes, advice and financing schemes. The purpose is to increase the investment in small economic units and thereby promote job creation in the formal economy.

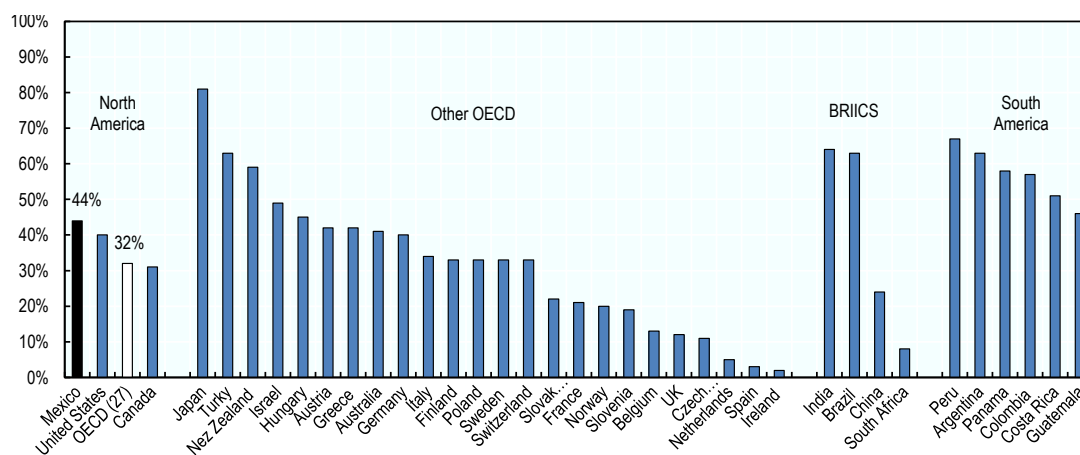
67. For existing teachers, the country has implemented a Universal Teacher Evaluation System to help detect the areas teachers need to improve on. Accountability and transparency have been strengthened through: i) the establishment of assessment mechanisms for measuring student progress in primary and secondary education (e.g. *Evaluación Nacional del Logro Académico en Centros Escolares* - ENLACE – and *Exámenes de la Calidad y el Logro Educativos* - EXCALE); ii) an autonomous National Institute of Education Evaluation (INEE) responsible for evaluating the quality and performance of the national education system; and iii) the promotion of social participation in school councils across the country.

68. Looking ahead, national consultation forums were conducted in the first half of 2014 in order to review the educational model, and changes in the General Law on Education imply that authorities must now take actions aimed at strengthening the autonomy of school management (OECD, 2015c). The Mexican administration has also replaced the conditional cash transfer programme *Oportunidades* with a new programme, *Prospera*. While beneficiaries continue to receive the support they had under *Oportunidades*, they now also receive help to improve their productive potential. Specifically, children can now receive scholarships for college or technical college.

Mismatch and shortages

69. Not surprising, given the discussion above, employers in Mexico report a very high level of hiring difficulties, with 54% encountering difficulties filling jobs. This is significantly above the OECD average of 32% as well as higher than in most other Latin American countries (Figure 3.7). A similar finding emerges from the World Bank's World Enterprise Surveys, with 30.9% of Mexican firms identifying an inadequately educated workforce as a major constraint to their current operations, compared to 17% in OECD countries and 22.2% worldwide. Such difficulties are not limited to highly skilled jobs: amongst the top-10 jobs in which Mexican firms experience recruitment difficulties are sales representatives, secretaries, assistants, administrative personnel, labourers, and receptionists (World Bank, 2013). A large proportion of employers find socio-emotional skills particularly difficult to find (World Bank, 2013). While mismatch appears to be less of a problem in Mexico than it is in other OECD countries (Box 1), there is a relatively high level of under-education, which corroborates the complaints made by employers about skills shortages. That said, around a quarter of Mexican workers are estimated to be over-educated for the job they are doing, suggesting that mismatch is still significant.

Figure 3.7. Percentage of employers having difficulty filling jobs



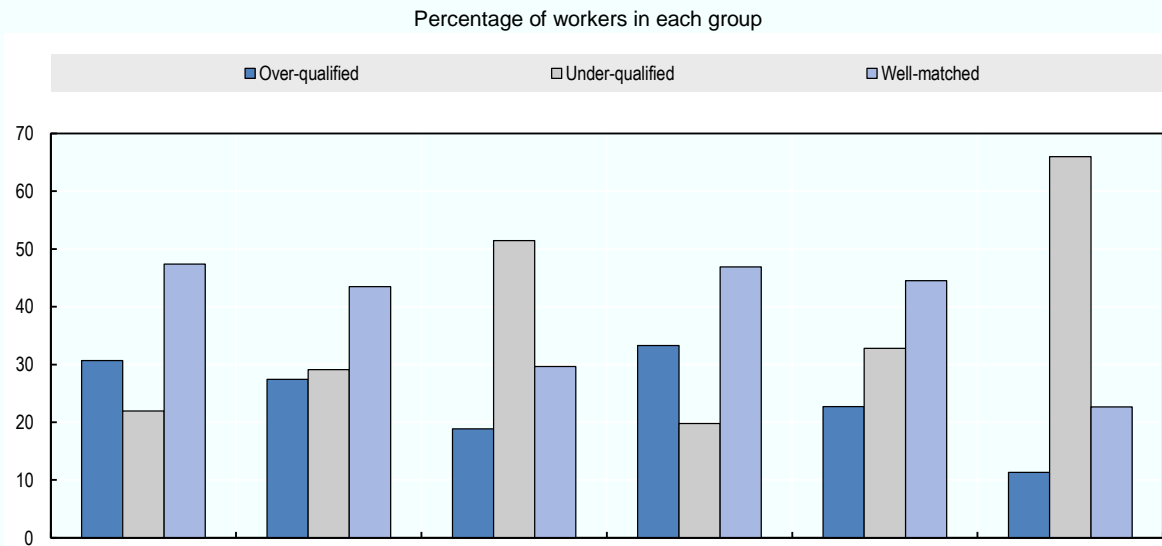
Source: ManPower Group (2014), The talent shortage continues, How the ever changing role of HR can bridge the gap, ManPower Group 2014.

70. High-quality and effective vocational education and training (VET) can build bridges between the worlds of education and work by providing a closer match between the skills required by employers and those produced by the education and training system, thereby reducing mismatch and shortages. In Mexico, the VET sector is relatively small, with just 9% of enrolments at upper secondary level in technical-professional programmes (*profesional técnico*), although nearly one-fifth of the enrolments in “general” programmes is in the *bachillerato tecnológico* that includes 40% vocational subjects (OECD, 2012). An OECD review of VET in Mexico concluded that linkages between the VET system and employers are relatively weak, illustrated by the low level of involvement of employers in VET policy development (OECD, 2009b).

Box 3.1. Over- and under-education in Mexico

On average, 25.6% of Mexican workers are estimated to be over-educated for the job they are doing (where over-education is measured as having at least two years of education more than the median required in a specific industry-occupation cell). As show in Figure A, the incidence of over-education diminishes with age, whereas the incidence of under-education rises with age. This is consistent with i) the idea that young people take a while to find a good match in the labour market; and ii) that educational attainment has improved considerably over time. Additional analysis suggests that over-education is more common in the private than in the public sector in Mexico, as well as in the formal sector (as opposed to the informal sector). The latter suggests that education is seen as an important passport to obtaining a formal sector job and that significant competition exists to obtain those jobs. Mismatch nevertheless appears to be less of an issue in Mexico than it is in many other countries (Figure B) and under-education is more of an issue than over-education – which corroborates the complaints from employers about skills shortages.

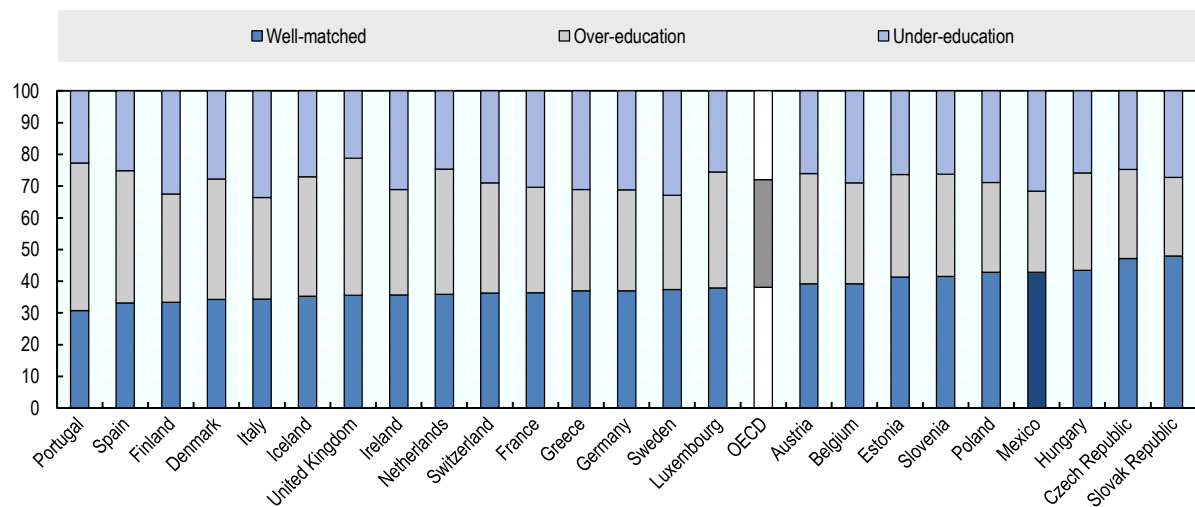
Figure A. **Over-and under-education by gender and age, Mexico, 2013**



Source: OECD analysis of Mexico's National Occupation and Employment Survey (*Encuesta Nacional de Ocupación y Empleo*).

Figure B. **Over- and under-education, Mexico and selected OECD countries, 2013**

Box 1. Percentage of workers aged 15-64



Source: OECD calculations based on Mexico's National Occupation and Employment Survey (*Encuesta Nacional de Ocupación y Empleo*) and the European Labour Force Survey

71. Another intervention of value in reducing mismatch would be to upscale the *Servicio Nacional de Empleo*, Mexico's public employment service (PES), since this institution can play a critical role in matching the supply of skills to existing demand. In Mexico, the PES serves only a very small segment of the workforce and is not commonly used by employers (World Bank, 2013). Mexico's current public expenditure (as a percentage of GDP) on the PES and administration of labour market programmes is the lowest in the OECD area.

Improving job quality

72. Labour market performance should be assessed not only in terms of the number of job opportunities, but also in terms of the quality of employment. After all, the jobs people hold are one of the most powerful determinants of well-being, given that most people spend a substantial part of their time at work. Recent OECD work in this area has argued that three dimensions are particularly relevant for workers' well-being, namely: earnings, labour market security, and the quality of the work environment. Given both its low level of earnings and high earnings inequality, it is not surprising that Mexico's score on this aspect of job quality is the lowest in the entire OECD area (OECD, 2014b).

73. The OECD job quality framework was initially developed for, and applied to, a set of advanced economies, but additional work is currently underway to extend the framework to the context of emerging economies (OECD, forthcoming). While the exact definition of job quality in those countries might differ slightly, there is also the issue that the labour markets of most emerging economies are characterised by large informal sectors, and that job quality (as measured by earnings quality, the risk of low-pay and the quality of the work environment) are substantially lower in the informal sector.

Earnings inequality

74. Mexico is among the OECD countries with the highest levels of earnings inequality (as measured by the ratio between the 90th and 10th earnings percentiles).¹³ Earnings inequality in Mexico rose between the late 1980s and the early 2000s (Bosch and Manacorda, 2010), and a substantial part of the growth in inequality (including nearly all the growth in inequality in the bottom half of the distribution) has been attributed to the steep decline in the real value of the minimum wage over that period (Bosch and Manacorda, 2010), which is currently amongst the lowest (relative to the average wage) in the OECD area (OECD, 2015d). Other explanations for the rise in earnings inequality include the increase in demand for skilled workers over that period (Campos-Vázquez, Esquivel and Lustig, 2012). Prior to the crisis, there had been a slight decrease in inequality, but this trend has been reversed again in more recent years (see Chapter 1).

Informality

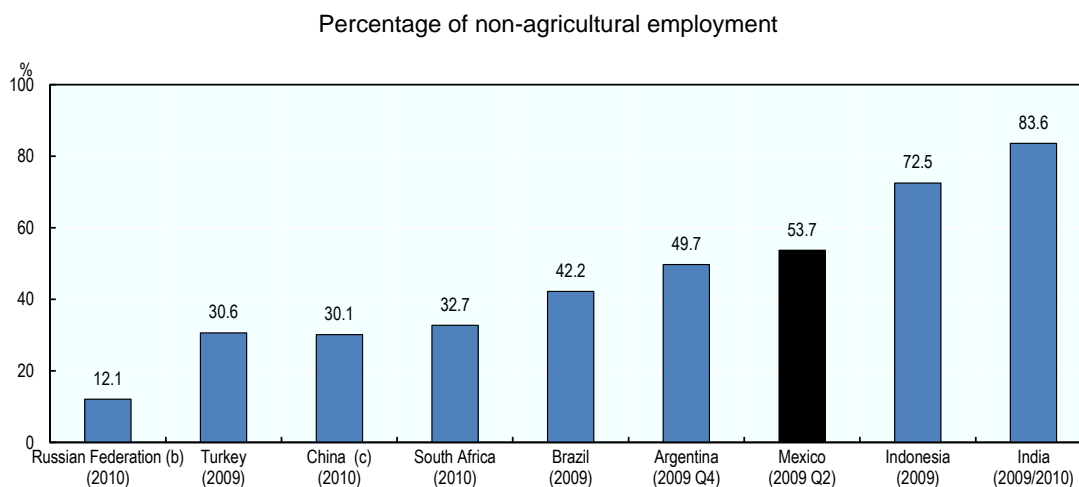
75. In comparison to other large emerging economies, Mexico has a very high prevalence of informal employment (Figure 3.8). Informality is also much more common among certain vulnerable groups, such as youth aged 15-24, 68.4% of whom are in informal employment. Besides the implications for job quality, informality is one of the main causes of Mexico's low productivity, holding back the country's economic growth potential.

13. Regional inequalities are also substantial. While measured by GDP per capita, rather than by wages or earnings, OECD (2013d) shows that regional inequality in Mexico is amongst the highest in the OECD. Furthermore, inequality in some states is much larger than in others: OECD (2014e) demonstrates that the difference in inequality (as measured by the Gini of income) between states (Chiapas and Tlaxcala) is as large as the difference in inequality between Mexico and the OECD average.

76. The causes of informality are many and complex. However, a major factor in the case of Mexico is the poor business environment and, in particular, the level of regulation, which remains stringent both at the national and local levels, and encourages small businesses to operate in the informal sector (Arias et al., 2010; OECD, 2015c). Important efforts are being made to address this issue. For example, the 2012 Labour Law reform introduced new short-term training contracts, extended trial periods, and facilitated hiring in seasonal/temporary and part-time jobs. All of these should promote higher formal employment, among youth and the lower-skilled in particular. The reform also: i) made it easier to dismiss workers by introducing new grounds for termination without liability for misconduct, including harassment, and ii) reduced dismissal costs (but also uncertainty) by capping severance payments. Back-pay while labour litigation is in progress is now limited to a maximum of 12 months.

77. The cost of formality is also affected directly by high taxation and/or social security contributions. In this sense, Mexico's recent Tax Reform is a step towards a simple and more progressive tax system that promotes equality and efficiency, and promotes formal activity while strengthening government revenues. The reforms include substantially reduced personal, social security and value added tax obligations in the initial decade of business operation. The scheme also includes special incentives to help raise productivity among micro and small enterprises, such as training, and advisory and funding schemes – all of which are aimed at helping small firms expand and create more formal jobs. As part of further fiscal measures introduced in July 2014, social security reductions for low-income workers (earning up to three times the minimum wage) have been introduced, amounting to a 50% subsidy during the first year, decreasing to 10% in the 10th year – which should encourage hiring into formal jobs.

Figure 3.8. **Persons in informal employment,^a Mexico and other large emerging economies**



a) The definition of informal employment is in line with the Seventeenth International Conference of Labour Statisticians (ICLS) "Guidelines concerning a statistical definition of informal employment."

b) Data for the Russian Federation corresponds only to persons employed in the informal sector.

c) Six cities only.

Source: ILO/WIEGO Informal Employment Database, ILO Short-Term Indicators of the Labour Market Database.

78. Providing information and/or raising awareness of the benefits of formality may also help, particularly in the case of more marginal workers such as domestic employees, the self-employed as well as farmers. The Mexican Secretary of Labour and Social Welfare (STPS) has launched a broad publicity campaign to "go formal". In addition, workers can obtain information and advice on their labour rights from the Federal Labour Attorney.

79. Mexico has also strengthened labour inspections of enterprises regarding the fulfilment of their social security obligations, and the Labour Law reform of 2012 has increased the penalties for breaches of labour laws. On 17 June 2014, the General Labour Inspection Regulation and Implementation of Sanctions (RGITAS) was published, which entered into force on September 2014. The new regulation includes as an obligation the elaboration of the Inspection Programme, in collaboration with leading organisations of employers and workers, as well as with the National Advisory Committee on Safety and Health at Workplace (COCONASST) and the State Advisory Committees on Safety and Health Workplace (COCOESST). Given that informality in Mexico is also related to a weak justice system (Dougherty and Escobar, 2013), the Labour Law reform of 2012 established mechanisms to expedite justice in labour disputes, and streamlined and modernised the labour court system.

80. Setting up an unemployment insurance system would reduce the risk of informality after job loss, since it would give individuals the time to find an adequate match in the labour market. The Fiscal and Social Security Reform put forward in 2013 contains a proposal for an unemployment insurance scheme, under which all (formal) workers who lose their job would be guaranteed a 6-months benefit, as long as they have made the necessary social security contributions (24 out of the last 36 months). The Social Security Reform that contains the unemployment insurance proposal has already been approved by the Lower Chamber and is currently being reviewed by the Senate (Upper Chamber). While such a development is welcome, it is important that, over time, the income support provided to the unemployed is accompanied with adequate re-employment services and active job search requirements, as well as efforts to monitor recipients' work activity in the informal sector while receiving unemployment benefits.

81. While policies to reduce informality are important, there are also important steps that can be taken to better protect informal workers, without necessarily damaging their incentives to seek formal sector jobs. One example of this is *Seguro Popular* in Mexico, a health insurance scheme for households not covered by social security, notably the self-employed and those working in the informal sector. *Seguro Popular* was implemented in 2004 and today covers around 50 million people. Families pay a premium increasing with their income, which is waived for those in the four lowest income deciles. While it may be feared that generous non-contributory programmes like *Seguro Popular* create perverse incentives for individuals to join or remain in the informal sector, as they can access free services without paying taxes and/or contributions, OECD analysis suggests that the roll-out of *Seguro Popular* had not an impact on the prevalence of informal work (OECD, 2011b). These results are corroborated by previous estimates that suggest no (Barros, 2008; Campos-Vázquez and Knox, 2010) or only very small (Bosch and Campos-Vázquez, 2010) effects of *Seguro Popular* on informality – although some commentators have argued that such non-contributory programmes do generate disincentives to search for employment in the formal sector (Levy, 2008).

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Chapter 4

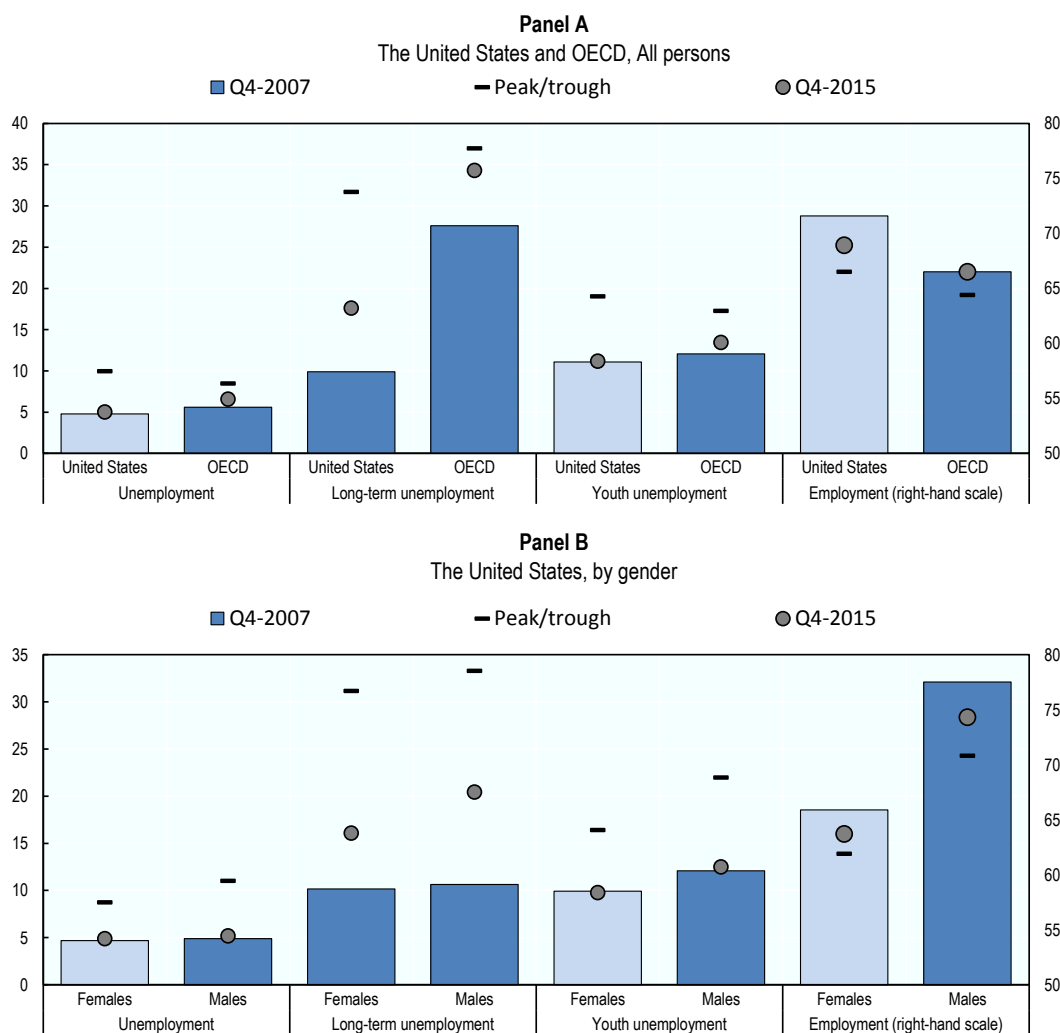
The United States labour market: Challenges and prospects

How has the labour market weathered the crisis?

82. The labour market in the United States was hit relatively hard by the Great Recession with the fall in the employment rate and the rise in unemployment both exceeding the OECD average values (Figure 4.1, Panel A).¹⁴ The subsequent labour market recovery has been slow in the United States compared with earlier post-war recessions. Nonetheless, labour market conditions have been improving faster in the United States than in many other advanced economies. At 5.0% in Q4 2015, the US unemployment rate is significantly below its quarterly peak six years earlier (9.9% in Q4 2009), but still slightly above its pre-crisis level eight years earlier (4.8% in Q4 2007).¹⁵ Unemployment has come down much more strongly during the recovery period in the United States than in the euro area, where it still averages more than 10% (10.5% in Q4 2015). As a result, the US unemployment rate is substantially below the OECD average of 6.6%, even as it remains above the levels seen in some OECD countries (e.g. under 4% in Japan and Korea).

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14. For purposes of international comparability, Figure 4.1 shows seasonally-adjusted quarterly data for persons between the ages of 15 and 64 years (ages 16 to 64 years for the United States), during the period ranging from Q4 2007 to Q3 2014. By contrast, US labour force statistics are typically reported for persons ages 16 and over. While some of the internationally comparative labour market data presented in this chapter are mildly out of date compared with the latest national statistics available in the United States, the longer-run developments and comparisons that are discussed in the text are still qualitatively valid.
15. OECD projections from November 2015 foresee the US economy growing at approximately a 2.4% rate in 2016 and 2017 (OECD, 2015a). This growth is expected to bring the unemployment rate down to 4.7% in 2017.

Figure 4.1. Key labour market indicators^a, the United States and OECD^b, Q4 2007-Q4 2015



Notes: The age groups are as follows: 15 to 64 for employment and unemployment, 15 to 24 for youth unemployment, and the total population for long-term unemployment. For long-term unemployment in Panel B, Q4 2007 data refers to 2007 and Q3 2014 refers to 2013. Long-term unemployment refers to unemployment of 1 year or more.

- a) Unemployment is measured as a percentage of the labour force; long-term unemployment as a percentage of all unemployed, youth unemployment as a percentage of the youth labour force; and employment as a percentage of the working-age population.
- b) OECD is a weighted average for OECD countries.

Source: OECD calculations based on OECD Short-Term Labour Statistics (database), <http://dx.doi.org/10.1787/data-00046-en> and quarterly national labour force surveys.

83. Despite the strong employment growth during 2015, when an average of 229 thousand jobs were added each month, the share of the US working-age population (aged 16 to 64) that is employed is still 2.7 percentage points lower than before the crisis (68.9% in Q4 2015 versus 71.6% in Q4 2007). A small portion of this decline is due to unemployment still being 0.2 percentage points above its level at the end of 2007, but the decline in participation rates is a much larger factor. Since both the ageing of the baby-boom cohort and difficult labour market conditions have depressed participation in recent years, it is difficult to predict how strongly the participation rate will bounce back as the economic recovery proceeds, in the absence of policy initiatives to encourage participation. However, there is good reason for concern that participation may not recover completely in the absence of additional policy support (see below).

Women fared relatively well during the recent recession, but the long-term unemployed and vulnerable youth risk being left behind by the recovery

84. Men experienced much greater job losses than women during the 2008-09 recession, probably due in large part to the greater concentration of men in hard-hit industries such as construction (Figure 4.1, Panel B). However, both men and women have seen a sharp rise in the share of unemployed who remain jobless for an extended period of time. Nearly one in five unemployed Americans have been out of work for over a year, whereas that figure was less than one in ten in 2007 (Figure 4.1, Panel A).¹⁶ Long-term unemployment began to ease in 2012, when it peaked at nearly one in three unemployed persons, but has been slower to reverse its earlier rise than overall unemployment. There is a risk that excessively high long-term unemployment will persist long after the shortfall in aggregate demand has been eliminated, since the experience of other OECD countries during the 1980s and 1990s shows that long-term joblessness can become entrenched, with large social and economic costs. One reason the long-term unemployed can become structurally unemployed is that employers are typically very cautious about hiring this group, largely because of fears that an extended period of joblessness can be demoralising, lead to a deterioration of human capital or even to health problems. As a result, effective public re-employment programmes have an important role to play in assisting this group back into work.

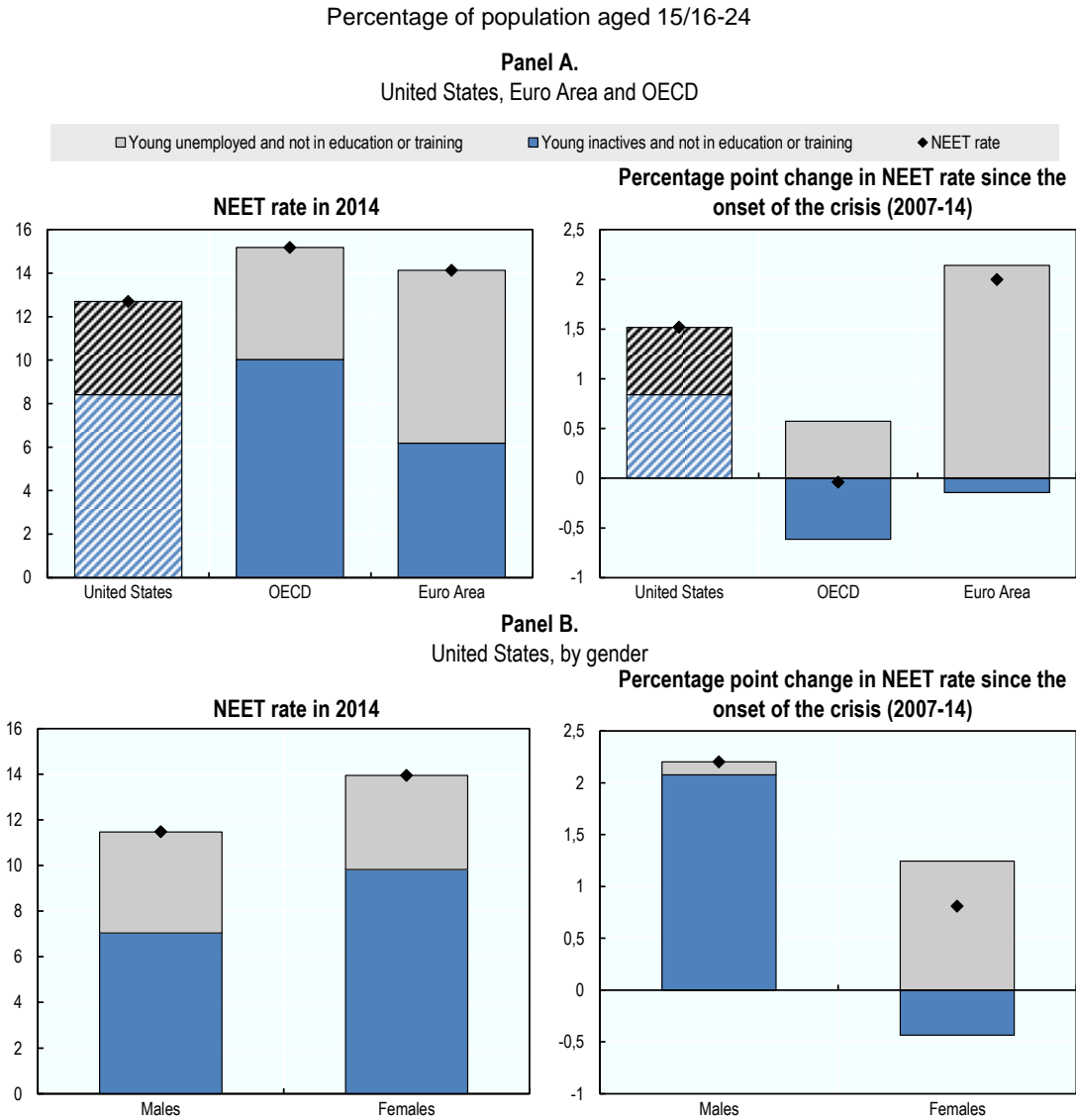
85. Young adults are one of the population groups whose employment rate has fallen the most sharply since the pre-crisis period. To a considerable extent, this reflects increased school enrolment that should contribute to greater labour market opportunities in the long run. However, that is not the full story. Recent school leavers have encountered great difficulties in getting their careers underway in recent years, as is reflected in the 11.2% unemployment rate for 16-24 year-olds in-Q4 2015 (Figure 4.1, Panel A). Despite having fallen substantially from its Q4 2009 peak of 19.0%, the youth unemployment rate is still 2.6 times the rate for prime-age workers (aged 25-54 years) and the share of youth with a job is down 3.9 percentage points since Q4 2007.

86. Another sign that some youth are at risk of being permanently scarred by the long period of labour market slack is that the share who are neither employed nor in education or training (the so-called “NEET rate”) increased from 11.2% in 2007 to 12.7% in 2014 (Figure 4.2). It is also noteworthy that the majority of the increase in NEETs in the United States corresponds to youth who are not actively searching for a job and are thus classified as out of the labour force, rather than as unemployed, whereas the contemporaneous and somewhat larger increase in the NEET rate in the euro area took the form of unemployment (even if within the area some countries, such as Ireland and Italy, also experienced an increase in youth inactivity).¹⁷ The overall NEET rate is higher for woman than for men, but the latter have experienced a substantially larger increase since the 2007 (2.2 and 0.8 percentage points, respectively).

16. While the conventional definition of long-term unemployment in the United States is unemployment of more than 6 months, the standard international definition of long-term unemployment is used here, namely, workers who have been jobless for a year or longer. In April 2016, 32.2% of all unemployed in the United States had been unemployed for 27 or more weeks.

17. The average NEET rate fell slightly for the OECD area due to large declines for young women in a few countries, notably Turkey.

Figure 4.2. Youth neither in employment nor in education or training (NEETs), the United States, Euro area and OECD, 2007-2014



Note: OECD is the weighted average of 32 countries (excluding Chile and Japan).

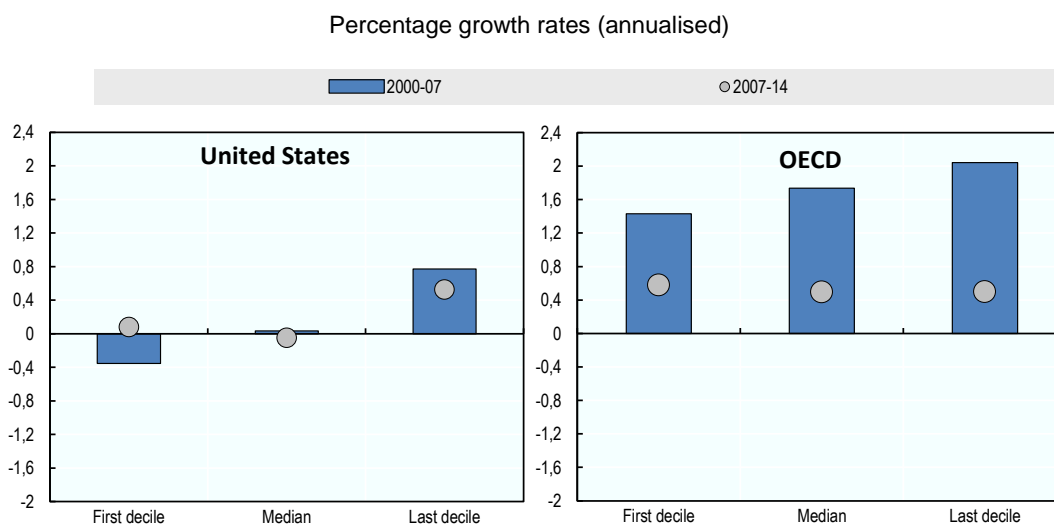
Source: OECD. (2015), *Education at a Glance 2015: OECD Indicators*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/eag-2015-en>.

87. Youth without a post-secondary qualification are particularly at risk of falling into long-term joblessness and never fully recovering from their slow start in the labour market. OECD (2014a) shows that good educational credentials play a key role in enabling youth to access good jobs, whereas workers' skills and competencies play the dominant role in determining how far they ascend job ladders during their careers. As is discussed below, additional policy measures are required to reduce the number of youth leaving school without adequate qualifications.

The recovery has yet to be felt in the pay checks of most workers

88. Despite the sharp fall in overall unemployment in the United States since 2009 peak, real wage gains have been limited to workers located on the upper half of the earnings ladder. Among full-time employees, real wages have been flat since 2007 for workers at the first decile and the median of the earnings distribution, whereas workers at the ninth decile have benefitted from rising real wages (Figure 4.3). Interestingly, the distribution of real wage gains during 2000-07 was very similar to that seen since 2007, a clear indication that the stagnation of earnings for much of the workforce and the concentration of wage gains at the top is more than a cyclical issue.¹⁸

Figure 4.3. **Average annual growth in real earnings at different deciles of the wage distribution during 2000-07 and 2007-14**



Note: Estimates based on gross earnings of full-time wage and salary workers. However, this definition may vary from one country to another. Further information on the national data sources and earnings concepts used in the calculations can be found at: www.oecd.org/employment/outlook.

a) Unweighted average of 27 OECD countries (excluding Estonia, Iceland, Luxembourg, Mexico, the Netherlands, Slovenia and Turkey).

Source: OECD calculations based on *OECD Earnings Distribution* (database), <http://dx.doi.org/10.1787/data-00302-en>.

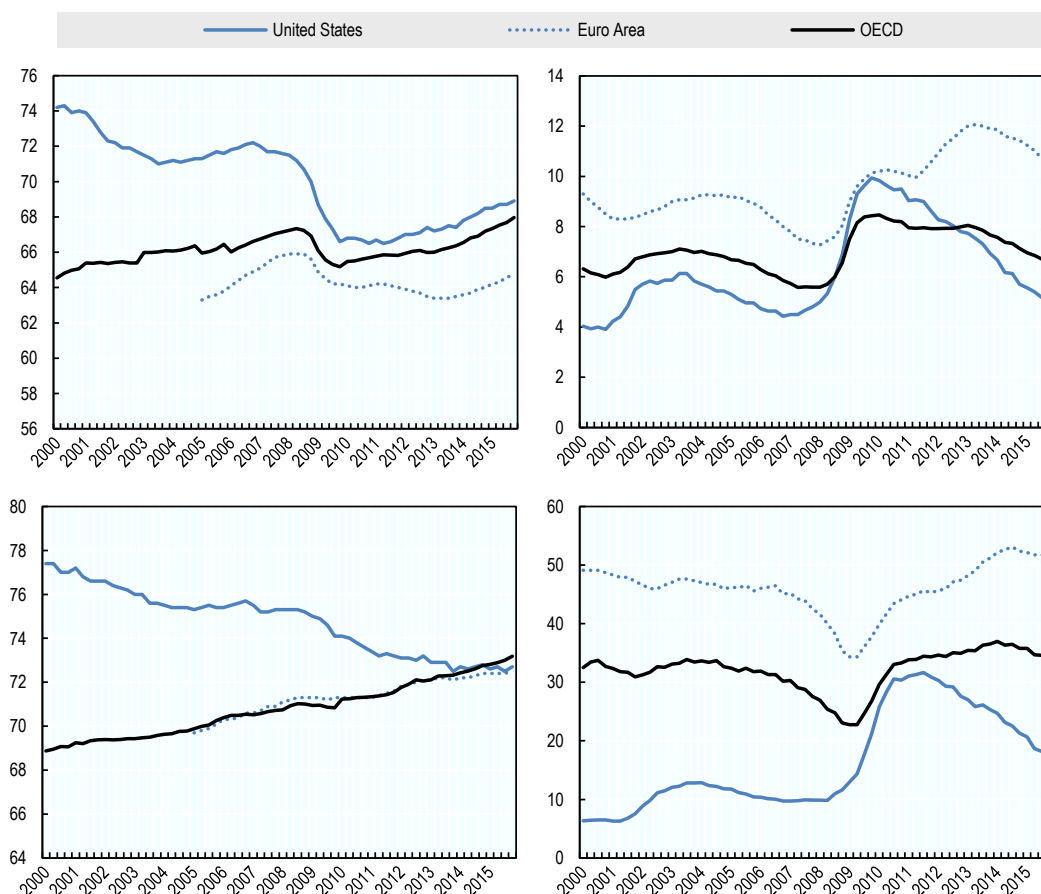
89. The impact of the global financial crisis on wage developments has been quite different in other advanced economies. Median real wage growth averaged 1.7% during 2000-07 for OECD countries and was only moderately higher at the top of the earnings ladder than on its middle and lower rungs (Figure 4.3). Median wage growth slowed to 0.6% annually during 2007-14, but the deceleration in wage gains was sharper for middle- and high-wage workers than for low-wage workers.

90. In the United States, the Obama Administration has taken a variety of steps in recent years to raise the wages of workers on the lower and middle rungs of the earnings ladder. This includes to the recent updating of overtime pay rules under the Fair Labor Standards Act, so that an increased share of the workforce will be covered by the rule requiring a 50% wage supplement for hours worked beyond 40 in a single week, and a proposal to increase the Federal minimum wage. It is also to be hoped that recent success in accelerating job creation and reducing labour market slack will strengthen the bargaining power of low and medium wage workers, even as it improves their employers' ability to pay higher wages.

18. It is possible, however, that the progressive reduction in labour market slack has reached the point where real wage gains will soon accelerate and become more widespread as they were during the late 1990s.

91. Figure 4.4 places the post-crisis developments in the level of employment into the context of medium-term developments, showing how the impact of the crisis on the US labour market exacerbated a longer-term decline in the participation rate and increase in long-term unemployment that are depressing the overall employment rate. These trends were already visible during the economic recovery following the “Dot-Com Recession” when an extended period of economic expansion failed to restore the previous level of overall labour market performance. The share of the working-age population in the United States that is employed fell from 74.2% in Q1 2000 to a low of 71.0% in Q3 2003.¹⁹ During the subsequent economic recovery the employment rate only crept back up to 72.2% in Q4 2006 when it again began to fall reaching a new low of 66.5% in Q4 2010. The employment rate has risen slowly since, reaching a still low 68.9% in the third quarter of 2015. This pattern suggests that a downward ratchet effect on employment rates may now be operating across business cycles in the United States with potentially large adverse consequences for potential output and living standards in the long run (OECD, 2014b).

Figure 4.4. Key labour market trends in the United States, Euro area and OECD, Q1 2000-Q4 2015



Source: OECD calculations based on *OECD Short-Term Labour Statistics* (database), <http://dx.doi.org/10.1787/data-00046-en> and quarterly national labour force surveys.

19. These employment rates refer to persons between the ages of 16 and 64 years and are substantially higher than the employment rates that the US Bureau of Labor Statistics reports for ages 16 years and over (e.g. 59.6% in January 2016).

92. The downward trend in the US employment rate since 2000 largely reflects upward trends in the shares of the working-age population who are inactive or long-term unemployed (Figure 4.4). The declining participation rate is more important quantitatively, accounting for 84% of the 5.1 percentage point reduction in the employment rate since 2000, but one of the factors depressing participation rates is likely to have been the perception that jobs are hard to find.²⁰ The near tripling of the share of unemployed workers who have been jobless more than 26 weeks during the past 15 years suggests this could have been an important factor, even if the Current Population Survey only identifies a relatively modest number of discouraged workers in the technical sense (BLS, 2015).²¹

93. The downward trend in employment and participation rates in the United States since 2000 stands in sharp contrast to the experience in other advanced economies. There has been no clear trend in employment rate for the OECD area as a whole or the euro area, but participation has trended upward in both regions, particularly in the euro area since 2005, despite the sharp rise in unemployment since 2007. Clearly, it is important to understand the US specific factors that have been depressing participation since 2000 and to consider policy reforms that can off-set them, at least in part. A second longer-term challenge is to restore real wage growth for workers all along the wage ladder.

Preparing for the future: Strengthening labour utilisation, job quality and investments in skills

94. As was shown above, signs of a longer-run deterioration within the US labour market were apparent well before the Great Recession. In particular, labour force participation has been declining and long-term unemployment rising since the end of the 1990s. It will be difficult to sustain economic growth and achieve fiscal balance if this trend is not reversed. Declining participation in the US labour market is partly a result of an aging population. Yet US participation rates have been declining among prime-age workers and, especially among youth. This reflects various factors such as higher school enrolment, declining employment opportunities for low-skilled workers and a growing dependence on disability benefits despite overall improvements in the population's health status. Reforms in countries such as the Netherlands provide a useful model on how to reduce excessive dependence on disability benefits through employer and employee financial incentives that enable and encourage more working-age people with chronic health problems to remain active in the labour market. Making it easier for women to reconcile work with family responsibilities could also help.

95. Another long-run concern is that real earnings have grown only slowly or even stagnated for much of the working population. After robust growth in the 1960s and 1970s, real compensation has lagged behind labour productivity growth. The deceleration has been most pronounced in the lower and middle ranges of the earnings scale, contributing to the significant increase in earnings inequality. This results from technical progress, which has reduced demand for lower and mid-level skills; globalization and immigration, which have increased competition at these skill levels from low-wage countries; and a downward trend in the real minimum wage. Many low- and middle-income US workers lack the skills needed to qualify for higher-pay jobs in a globalized and ICT-intensive economy. Strengthening real wage growth for these workers means raising achievement in primary and secondary schooling, strengthening vocational education and training and strengthening collaboration with local employers to improve workforce skills. Measures to reinforce the bargaining power of low- to medium-skill workers, such as

20. The decline in wages for young workers is also likely to have depressed participation by reducing the opportunity cost of pursuing more education.

21. Discouraged workers are defined to be workers who want and are available to work, and have searched for work in the past 12 months, but are not currently searching for work because they believe no jobs are available for them (BLS, 2015). The number of discouraged workers in April 2016 was equivalent to just 0.4% of the labour force. (Note that these figures are not seasonally adjusted and that discouraged workers are not considered to be in the labour force.)

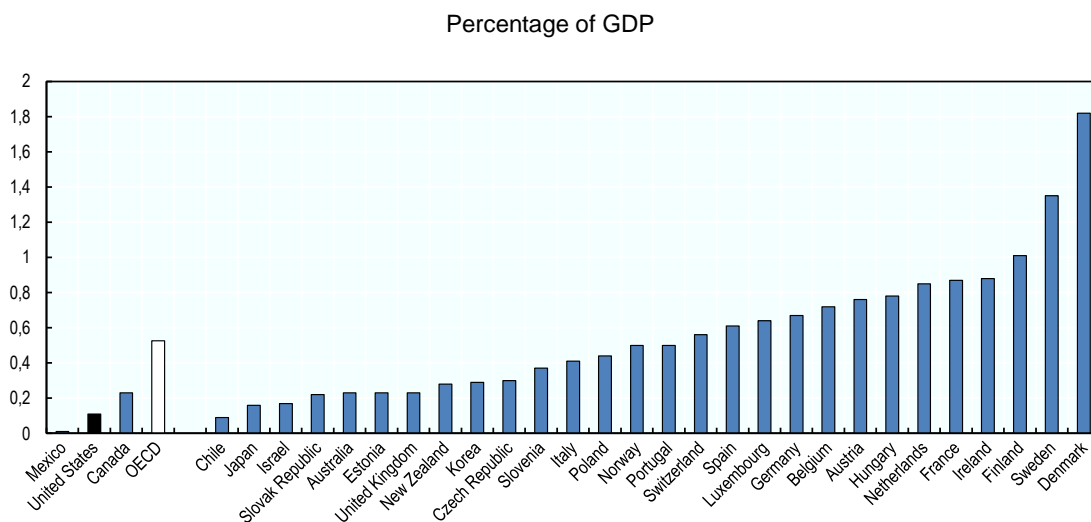
linking changes in the real minimum wage to productivity growth or reversing the decline in union density, could also contribute to stronger wage growth in the bottom half of the distribution. The following pages discuss these challenges in greater detail and identify possible policy responses based on experience in other OECD countries.

Strengthening labour utilisation

More effective activation of income benefit recipients who are able to work

96. High levels of long-term unemployment are more likely to become entrenched when the unemployed are eligible for long-duration income support payments that are not conditioned on active job search, participation in effective re-employment programmes, or the obligation to accept suitable job offers. Despite recent increases, the US government devotes relatively few resources to “activation” measures, such as job-search assistance and public training projects, compared to most other OECD countries. Such spending was just 0.11% of GDP in 2013, about one-fifth of the OECD average, and had declined between 2008 and 2013 (Figure 4.5). The strong growth in long-term unemployment in recent years suggests that a high priority should be placed on expanding the re-employment assistance available to job seekers, especially the long-term unemployed. A number of OECD countries offer successful examples of how to implement more ambitious activation schemes. Improving activation in the United States will require greater spending, which will be difficult in the current fiscal environment, but should still be considered. It is thus to be welcomed that the fiscal year 2017 budget proposal recently put forth by the Obama Administration includes USD 1.5 billion to fund Career Navigators in American Job Centers who will reach out to the long-term unemployed, those who have dropped out of the labour force altogether and people who are only able to find part-time work and provide them with help looking for jobs, identifying training options and accessing additional supportive services (Office of Management and Budget, 2016).

Figure 4.5. **Active labour market expenditure in international comparison, 2013^a**

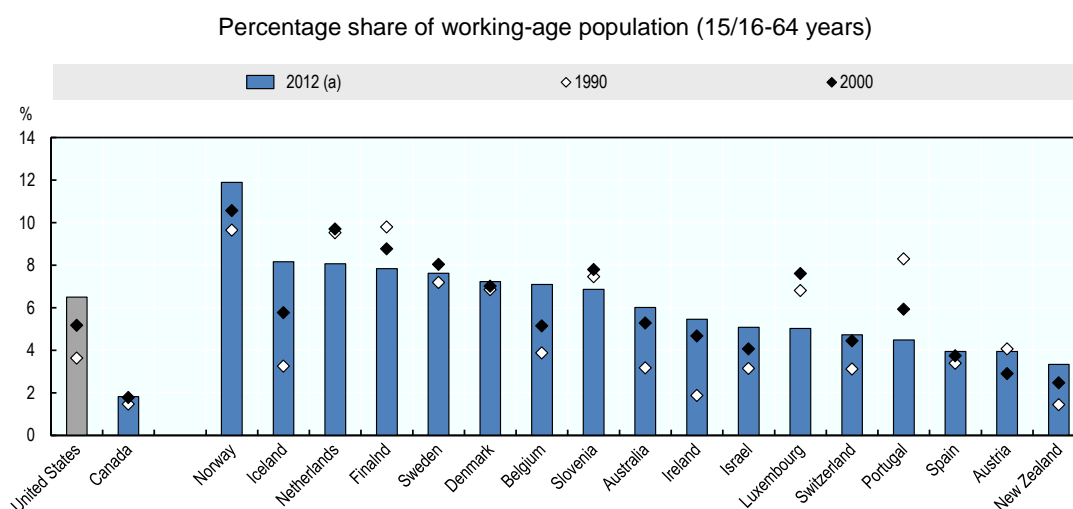


a) 2012 for France, Israel, Korea, New Zealand, Poland and Spain; 2011 for the United Kingdom.

Source: OECD/Eurostat Labour Market Programmes Database, <http://dx.doi.org/10.1787/data-00312-en>.

97. Another factor depressing participation rates, especially among middle-age and older workers is the rising numbers of disability benefit recipients. Figure 4.6 shows that disability recipients represented 3.6% of the US working-age population (16-64 years) in 1990, 5.2% in 2000 and 6.5% in 2012. The near doubling of disability recipiency since 1990 is particularly worrying, because very few people, entering this form of income support, ever return to employment (OECD, 2010). While the difficult labour market conditions created by the Great Recession led to a temporary upsurge in applications and new awards of disability benefits (OECD, 2014b), the longer term problem is that too many workers with chronic health problems, who could nonetheless continue to work with the proper support, are instead permanently leaving the labour force at a high cost to their well-being and the public purse.

Figure 4.6. **Disability benefit recipiency in international comparison, 1990, 2000, 2012**



a) 2010 for the United States; and 2011 for Israel and Norway.

Source: Data provided by national authorities.

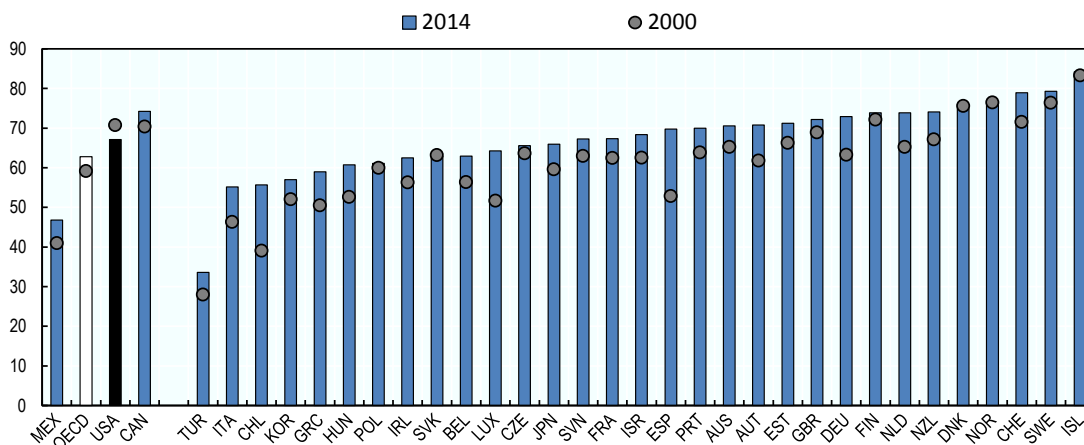
98. Other advanced economies have also grappled with this challenge and enough experience has been accumulated to clarify the nature of the policies that are required (OECD, 2010). Perhaps most critically, the disability benefit system must be structured so as to create the right incentives for all of the major actors. For example, it must pay for potential beneficiaries to remain in work even after they develop a health problem and for employers to make efforts to retain sick workers and help them back into their job or to find another job. Similarly, benefit authorities must have incentives to assess people’s work capacity rigorously, while service providers must be rewarded for reintegrating their clients into the regular labour market at a sustainable level. While no country has yet to fully meet this challenge, a number of countries, such as the Netherlands and Finland, have reduced recipiency rates in recent years.

Improving participation and employment outcomes for women

99. The rising share of working-age women in paid employment has been one of the most significant social and economic trends during recent decades. In a large majority of OECD countries, female participation rates have continued to rise since 2000, but that has not been the case in the United States where the share of women between the ages of 16 and 64 who are active in the labour force declined from 70.7% in 2000 to 67.1% in 2014, about where it was in 1990 (Figure 4.7). By contrast, female participation rates rose in Canada, Mexico and the entire OECD area during both the 1990s and 2000-2013.

While the participation rate of US women still exceeds the OECD average, it now lags that in Canada by 7.1 percentage points and those in some Northern European countries by even larger margins. One of the key challenges for labour market policy in the United States is to develop programmes and policies that increase female labour force participation and paid employment.

Figure 4.7. Female labour force participation, the United States and OECD countries, 2000-2014



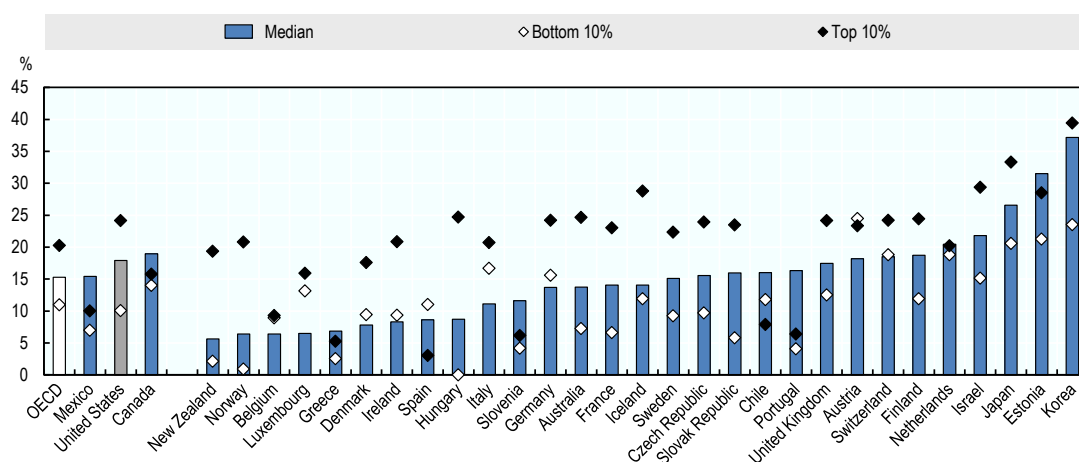
Note: 1990 data for Iceland, Mexico and Switzerland refer to 1991; 1992 for Hungary and Poland; 1993 for the Czech Republic; 1994 for Austria and the Slovak Republic; 1996 for Chile; 2002 for Slovenia.

Source: OECD Employment and Labour Market Statistics, <http://dx.doi.org/10.1787/data-00310-en>.

100. In order to narrow the gender gap in participation, a number of barriers to working that confront many women would need to be reduced or eliminated. One important barrier is the lesser access that women have to the best jobs, as is reflected in their lower pay levels and gender differences in occupation. The gender pay gap remains substantial (Figure 4.8): while the gap between low-earning men and women is just 10%, the gender pay gap is considerably larger for average earners at 18% and even larger among top income earners at 24%. The gender pay gap in the United States is somewhat higher than the OECD average and much higher than in New Zealand (6%) and several European countries. Legislation against pay discrimination (Equal Pay Act) was strengthened by the Lilly Ledbetter Fair Pay Act in 2009 but more could be done, for example by making it illegal for companies to prohibit employees from discussing or disclosing their salary.²²

22. In January 2016, regulations became effective to implement President Obama’s Executive Order 13665 which prohibits federal contractors and subcontractors from discriminating against employees and job applicants who inquire about, discuss or disclose their pay or the pay of other employees.

Figure 4.8. **Gender pay gap in earnings for full-time employees, the United States and OECD countries, 2013**



Note: The gender pay gap is defined as the difference between male and female wages divided by male wages (excluding self-employment earnings). Data refer to 2010 for Estonia, France, Luxembourg, the Netherlands, Slovenia, Switzerland and Turkey; to 2011 for Chile, Iceland and Israel; and to 2012 for Australia, Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Norway, Portugal, the Slovak Republic, Spain and Sweden. OECD refers to the OECD unweighted average excluding Chile and Mexico.

Source: OECD Earnings Distribution Database, <http://dx.doi.org/10.1787/data-00302-en>.

101. The U.S. labour market is better at getting women into management positions than other OECD labour markets (OECD, 2012). American women's share of senior management roles (43%) is almost as high as women's overall share of the labour force (47%); elsewhere in the OECD, women hold only 32% of management roles (data for 2008). Getting to the very top, however, remains difficult for American women. In 2009, only one in eight board members of listed companies was a woman; across the OECD, the average rate was one in ten. Another caveat is that female managers are highly concentrated in health, education and the non-profit sector and public service.

102. Social policies can help support labour force participation by women, in particular from low-income families. While middle- and upper-income dual-earner families with young children can more easily pay for domestic services and high-quality childcare centres, many low-income families cannot afford private childcare. Support varies across states, but public spending on early education and care for infants and pre-kindergarten children amounted to around 0.4% of GDP in the United States in 2009, compared to 0.7% of GDP, on average, across the OECD.

103. Women increasingly provide family income, and currently 40% of American families with children include mothers who are the sole or primary source of income. While this suggests positive gains for female employment, 63% of the “breadwinner” mothers are single parents. The median household income for single mothers is USD 23 000, putting them at a high risk of poverty.

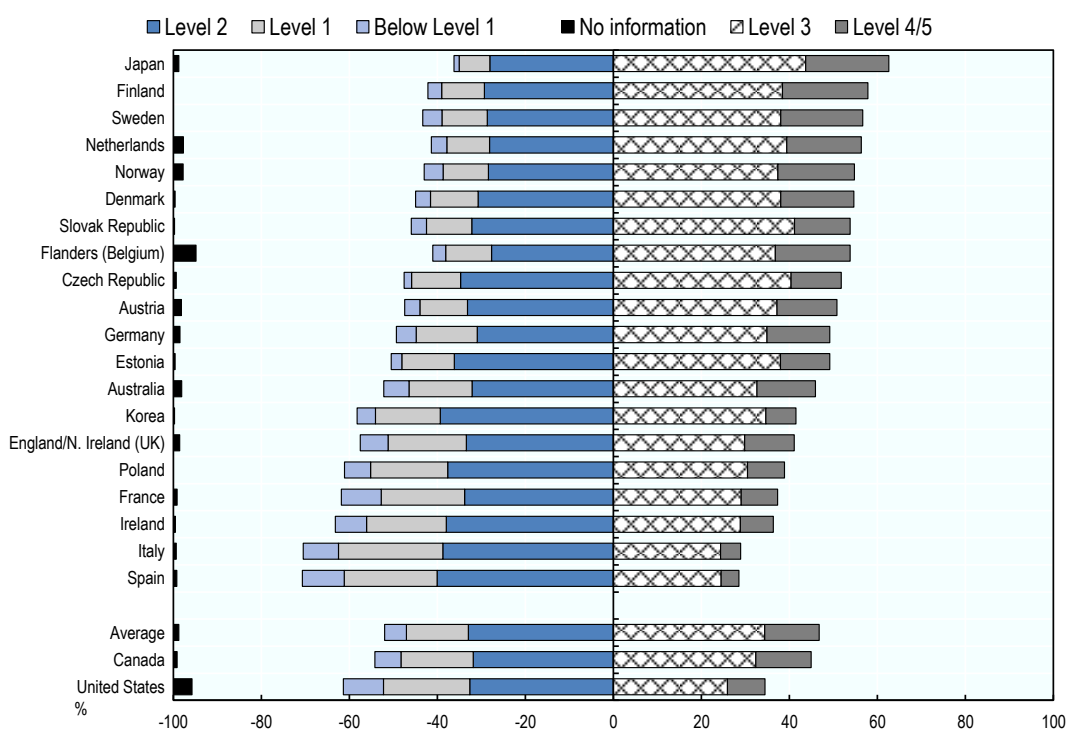
104. The United States is also the only OECD country without a national paid maternity leave policy. Only 12 weeks of unpaid leave are provided under the federal Family and Medical Leave Act, but not to workers in companies with less than 50 employees. Leave payments are offered only by some states. In general, low-income families have insufficient support during the period when they are most in need of income: immediately after childbirth, when mothers cannot work. The fiscal year 2016 budget proposal recently put forth by the Obama Administration includes USD 2.2 billion to support efforts in as many as five states to set up paid leave programmes for workers (Office of Management and Budget, 2016).

Addressing skills gaps and mismatch

105. The OECD’s new survey of Adult Skills also shows that weak literacy and numeracy skills are quite common in the United States. One in six adults in the US – about 36 million people – has low literacy skills, with Black and Hispanic adults substantially overrepresented in this population. Nearly one in three US adults have weak numeracy skills, while only one in nine US adults score at the highest level in literacy one in twelve score at the highest numeracy level. It is also worrisome that there are few signs of improvement. Today, adults in the United States have similar or weaker literacy skills to their counterparts in the mid-90s, and the average basic skills of young adults are not very different from older persons (OECD, 2013a). This reflects the limited progress in education attainment, where the United States has now been outpaced by a number of OECD countries.

106. Larger proportions of adults in the United States than in most other OECD countries have poor literacy and numeracy skills, while the proportion of adults with poor skills in problem solving in technology rich environments is slightly larger than the OECD average, despite the relatively high educational attainment among adults in the United States. For example, nearly one in three adults in the United States scores below Level 2 in numeracy compared with just one in five on average for all OECD countries (Figure 4.9).²³ At the other end of the performance spectrum, only 8% of adults score at Level 4/5 in numeracy, – the highest levels of proficiency – below the OECD average of 13%. Similarly disappointing results are achieved in literacy and problem solving in technology-rich environments.

Figure 4.9. Numeracy proficiency among adults, the United States and OECD, 2012
Percentage of adults scoring at each proficiency level in numeracy



Notes: Countries are ranked in descending order of the combined percentage of adults scoring at Level 3 and Level 4 or 5. Adults in the missing category were not able to provide enough background information to impute proficiency scores because of language difficulties, or learning or mental disabilities (referred to as literacy-related non-response).

Source: Survey of Adult Skills (PIAAC) (2012).

23. Skill levels are rated on a scale running from level 1 to level 5, where scores of level 2 or less are considered to be weak.

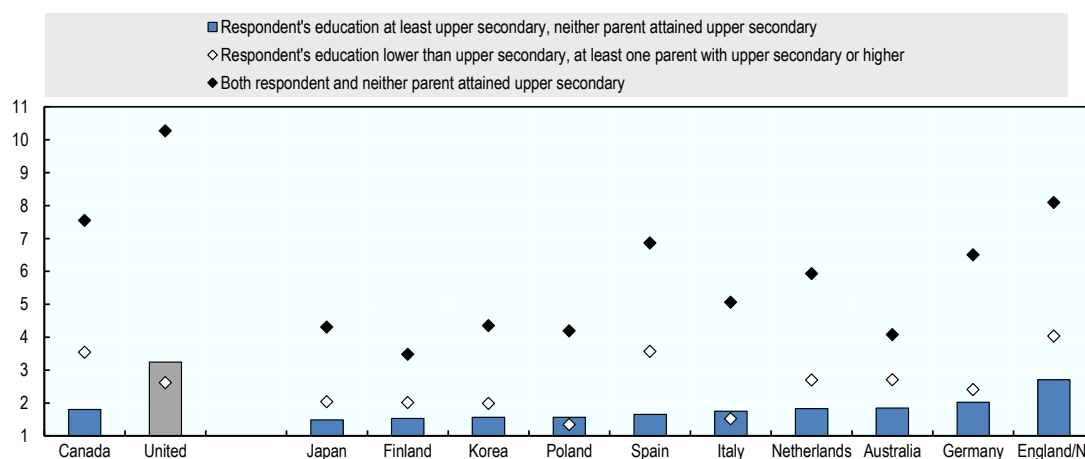
107. Having poor skills represents a major barrier to finding a productive and rewarding job, and is also associated with low hourly wages when employed. This is the case in all OECD countries (OECD, 2013b) and particularly in the United States where returns to skills are among the largest.

Socio-economic background has a stronger impact on skills proficiency in the United States than in other countries.

108. In all countries, but particularly in the United States, adults born to better-educated parents tend to have stronger literacy skills (Figure 4.10). In all countries, but again more so in the United States, low-educated adults from disadvantaged backgrounds are particularly likely to have low skills. The odds of being low skilled are ten times greater among low-educated adults born to low-educated parents than among high-educated adults born to high-educated parents – much greater than in other countries. On a more positive note, the association is much weaker among 16-24 year-old for which the United States is close to the average across all participating countries. This latter finding might reflect growing equity in the education and training system over time. Alternatively, it might reflect the fact that the impact of parents’ education is not fully apparent until later in life.

Figure 4.10. **Likelihood of low literacy proficiency among low-educated adults**

Adjusted odds ratio of scoring at or below Level 2 in literacy, by respondent’s and parents’ level of education



Notes: Estimates based on a sample size of fewer than 30 respondents or are not statistically different from the reference group are not shown. For more detailed results, see corresponding table in Annex. Odds ratios are adjusted for age, gender, type of occupation, and immigrant and language background. Countries are ranked in ascending order of the odds ratios of respondents scoring at or below proficiency Level 2 when their and their parents’ educational attainment is below upper secondary.

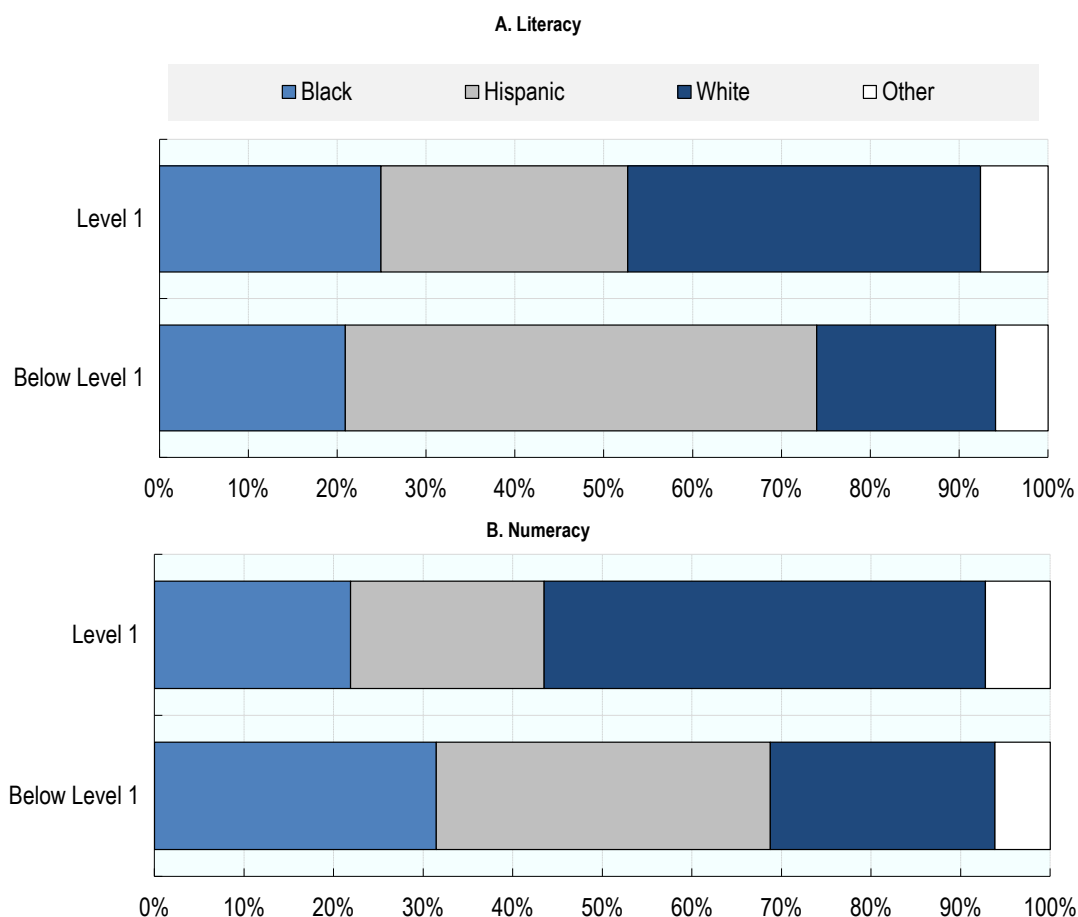
Source: Survey of Adult Skills (PIAAC) (2012).

Black and Hispanic adults are substantially over-represented in the low-skilled adult population.

109. Data on race/ethnicity were collected as part of the US national data collection in the PIAAC survey (comparable data from other countries are not available). While one in ten (10%) white adults scores below Level 2 in literacy, more than one in three (35%) black adults do so, and nearly one in two (43%) Hispanics. Similar patterns are observed in numeracy: 59% of black and 56% of Hispanic adults score below Level 2, compared with 19% of white adults.²⁴

110. Given that blacks and Hispanics are three to four times more likely to have poor skills than whites; these groups are substantially over-represented in the low-skilled population (Figure 4.11). Half of those with the lowest level of literacy (below Level 1) are Hispanic, and a further one in five is black. Among those with Level 1 literacy skills, about one in four are black and a little over one in four are Hispanic. Among those scoring at the lowest level of numeracy (below Level 1), 31% are black and 37% are Hispanic, while 22% of adults scoring at Level 1 are black and Hispanic.

Figure 4.11. **Race/ethnicity of adults with low skills in the United States**



Source: Survey of Adult Skills (PIAAC) (2012) US national dataset.

24. The relatively low literacy and numeracy skills of black and Hispanic adults almost certainly limit their labour market opportunities. Many other factors, including discrimination, are also likely to play an important role in explaining the earnings and employment gaps between these two minority groups and white non-Hispanic adults.

Skills policy priorities

111. The United States needs to take action if the skills and education levels of the United States population, and its workforce, are not to fall further behind other countries. Given the youthful demographic profile of the United States and the evidence of weaknesses in initial schooling despite high spending, attention to initial education should be the priority.²⁵ But action is also needed to improve the basic skills of adults, and to encourage their return to postsecondary education and training.

112. While participation in adult learning is relatively high in the United States, and many young adults return to college to complete their education, there is evidence of unmet demand, particularly for basic skills. While the United States system of postsecondary education, including community colleges have many strengths, rising tuition fees and student indebtedness, low completion rates, and quality assurance challenges in some programmes and providers remain real challenges that need to be addressed.

113. The Workforce Innovation and Opportunity (WIOA) Act of 2014 represented a significant reform of the public workforce system. WIOA better aligns the different public programmes assisting job seekers and workers with a need for training while also making the entire system more responsive to employers' needs and improving accountability. Under the leadership of Vice President Biden, the United States government has also been strengthening its job training system, including by better connecting its community college system to local employers. In his recent State of the Union Address, President Obama reiterated his 2015 proposal to offer free enrolment to community college students who progress on schedule in their studies (White House, 2016). Looking forward, the fiscal year 2017 budget proposal recently put forth by the Obama Administration foresees investing USD 3 billion in mandatory competitive funding for regional partnerships that bring together employers, education and training providers, and workforce boards with the goal of training a half million people and placing them into jobs in high-demand sectors. It is also encouraging that the fiscal year 2016 budget proposes USD 2 billion over five years for apprenticeship grants that are intended to effectuate a doubling in the number of registered apprentices (Office of Management and Budget, 2016).

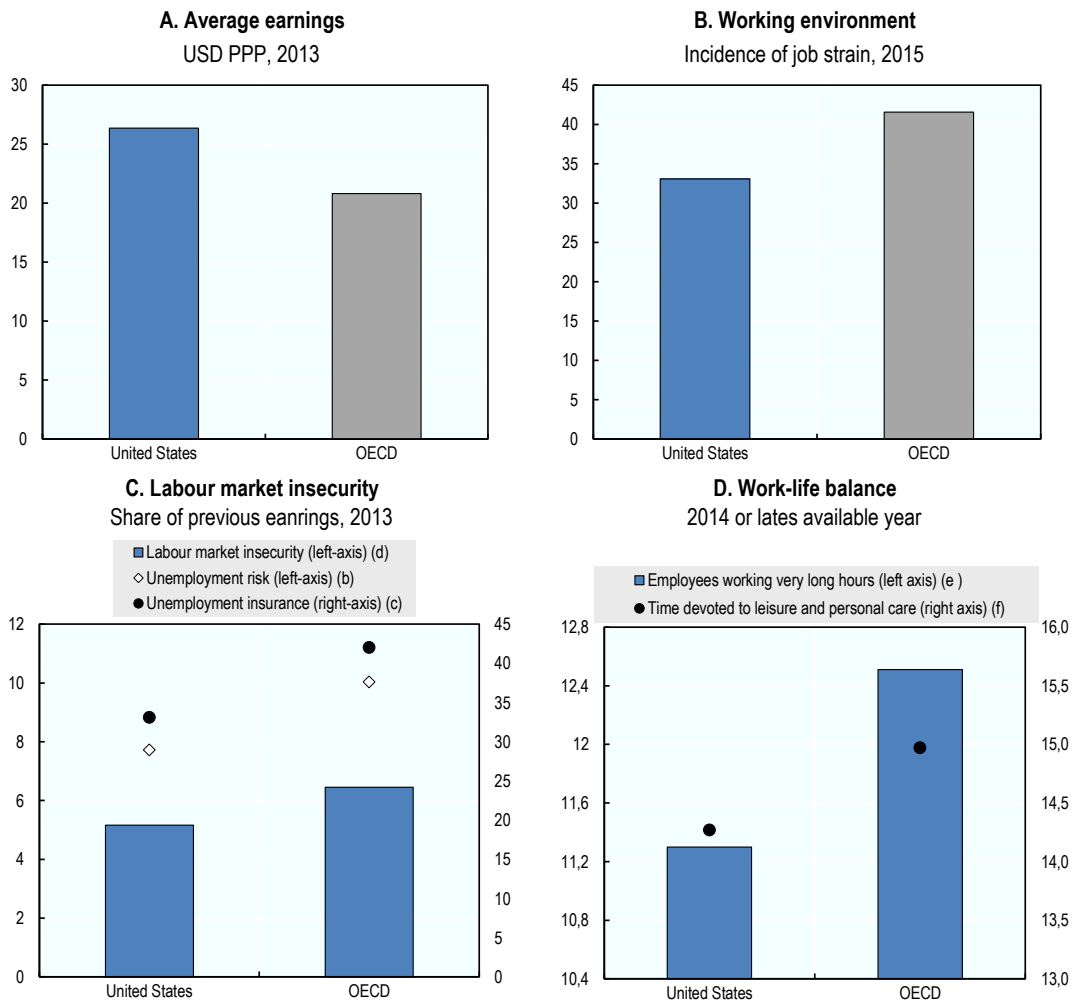
Improving job quality

114. People spend most of their day and a significant part of their life at work. Therefore, job quality is a key determinant of well-being. Recent OECD work paints a broad picture of job quality across OECD countries (OECD, 2013c and 2014a).²⁶ Compared to other OECD countries, the United States has areas of both strength and weakness (Figure 4.12).

25. Across all levels of education, annual per-student spending by educational institutions in the United States (USD 15 171) is higher than in any other OECD country. Despite this relatively high expenditure, there are strong signs of weaknesses in initial schooling – 15-year-olds in the United States score around the middle of the OECD league tables in reading and science, and below the average in mathematics.

26. Caldera Sánchez et al. (2014) provide a more detailed assessment of job quality and its relationship to well-being in the United States.

Figure 4.12. Job quality in the United States



- a) Share of employees. Job strain: one job demands with no job resources, or two demands with only one job resource or none. High level of job demands: two job demands. High level of job resources: two job resource.
- b) Unemployment risk: the probability of becoming unemployed times the expected duration of unemployment which may be interpreted as the average expected earnings loss associated with unemployment as a share of previous earnings.
- c) Unemployment insurance: the effective net individual replacement rate of unemployment and social assistance benefits in terms of previous earnings.
- d) Labour market insecurity: unemployment risk times one minus unemployment insurance which may be interpreted as the uninsured average expected earnings loss associated with unemployment as a share of previous earnings. For further details, see the web annex of Chapter 3 of the Employment Outlook 2014 on http://dx.doi.org/10.1787/empl_outlook-2014-en.
- e) Proportion of dependent employed whose usual hours of work per week are 50 hours or more.
- f) Number of hours per day that, on average, full-time employed people spend on leisure and on personal care activities.
- g) Time devoted to leisure and personal care: estimate.
- h) Estimates.

Source: OECD Employment Outlook 2014 for average earnings, working environment and labour market insecurity. OECD Better Life Index 2014 <http://dx.doi.org/10.1787/bli-data-en>.

115. The United States does particularly well in terms of average earnings and the quality of working environment. The US working environment is scored relatively highly due to most workers' reporting that they have the resources they need to accomplish their job duties (e.g. work autonomy, learning opportunities and good workplace relationships). It should be noted, however, that this measure takes no account of importance dimensions of the quality of the working environment, such as workplace safety and health. While high average earnings provides one of the key supports for generally high living standards, this advantage is offset by the high level of earnings inequality, which is discussed below in some detail. These international comparisons are also relatively unfavourable for labour market security due to the relatively high risk that American workers become unemployed and the relatively less generous income support available to job losers. Concerns about relatively high employment insecurity could be addressed, at least in part, by expanding the provision of effective re-employment services to job losers, making it less likely that they will become long-term unemployed.

116. Employment and job quality are ultimately means to achieving high living standards and are best assessed in connection with other factors that go beyond job quality, including disposable family incomes, work-life balance and health status. The OECD Better Life Index incorporates a number of such factors and also indicates that the United States is characterised by both notable strengths and some weaknesses (OECD, 2013c). The average annual household net-adjusted disposable income per capita is USD 39 531, much higher than the OECD average of USD 23 938. As with wages, the high average income value is associated with high dispersion which justifies concern about those on the lower rungs of the income ladder, including low-paid workers. In 2010, 12% of the US population living in households with at least one worker experienced in-work poverty, somewhat above the OECD average. Another weak point for the United States is that many families appear to face considerable difficulties in achieving a good work-life balance. The United States is the only OECD country without a national paid parental leave entitlement, although several states mandate paid leave, and 43 million workers have no paid sick leave. The Federal entitlement to 12 weeks of unpaid parental leave is relatively short compared with other OECD countries and is only available to workers in companies with 50 or more employees. The Obama administration has announced initiatives to promote family friendly employment policies, such as a new tax cut of up to USD 3 000 for childcare costs and measures to encourage more states to enact paid-leave laws (White House, 2015).

Reversing the rise in earnings inequality and low-paid work

117. High and rising income inequality is a growing concern in the United States and many other developed countries. Not only does high inequality raise fairness concerns, but there is growing evidence that inequality, beyond a certain point, also becomes a drag on economic growth because poorer members of society become less able to invest in their education (Cingano, 2014). One of the main sources of rising income inequality is the upward trend in the dispersion of wages. As was shown in Chapter 1, the United States is characterised by very high wage inequality compared with other OECD countries and has also experienced a particularly strong upward trend in pay differences since 1990. Whereas a ninth decile worker earned 4.3 times as much as a first decile worker in 1990, that figure had risen to 5.1 by 2013. By comparison, a ninth decile worker earns 3.7 times as much as a first decile worker in Canada and just 2.3 times as much in Italy.²⁷

27. These data refer to the earnings of full-time wage and salary workers.

118. Higher income inequality is mainly due to disproportionate income growth for top earners over the past two decades. But it also reflects low inter-generational social mobility. Children born to low-income parents in the United States find it more difficult to move up the social ladder than in most European OECD countries. These difficulties begin at school. In addition, entrenched inequalities (across gender, ethnicity and socio-economic lines) affect all outcomes where well-being is concerned, not just income. Minorities and people with lower socio-economic backgrounds have a clear disadvantage in terms of access to quality jobs and health care, exposure to air pollution, educational outcomes and civic engagement. Reversing them is essential to sustaining the ‘American dream’ of equal opportunity and upward social mobility.

119. The Obama Administration has been working since 2013 to raise the federal minimum wage and is currently supporting a proposal to raise the minimum wage to USD 12 in 2020. OECD research shows that a minimum wage can raise earnings and labour force participation among low-skilled workers provided it is not set so high that it adversely affects labour demand. At USD 7.25, the current federal minimum wage is 38% of the median wage for full-time workers, well below the 48% average in the 25 OECD countries with a statutory minimum wage. If the US minimum wage were raised to USD 10.10 in 2016, that would bring it to approximately 50% of the median wage, much closer to the OECD average, providing a welcome boost to the purchasing power of low-income workers.²⁸ The impact on employment, of course, would need to be closely monitored - especially for high school dropouts with little or no work experience. If any negative effects emerge, consideration should be given to establishing a sub-minimum wage for these groups, as has been successfully done in a number of other OECD countries. President Obama’s proposal to regularly adjust the minimum wage to reflect changes in the cost of living would also bring the United States practice into line with that in most other OECD countries (and several American States).

28. While prospects for enacting the increase in the Federal minimum wage remain uncertain, the Obama Administration has increased the minimum wage that Federal contractors must pay. It has also indicated its support for state and local initiatives to raise the minimum wage. Today, the majority of US workers live in states in which the minimum wage is higher than the Federal minimum wage.

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CHAPTER 5

Key policy responses and issues

120. Based on a country-by-country analysis of labour markets in North America, the report has identified a range of specific policy issues and highlighted recent policy advances as well as orientations for further policy reform. However, there is also a substantial overlap in the types of policy interventions that will be required to further strengthen labour market performance, since all three countries face a number of common challenges. This final chapter sets out these common policy challenges and possible policy reform orientations. It also highlights areas where countries are implementing successful policy responses and raises a number of issues for discussion.

Tackling persistent unemployment, underemployment and inactivity

121. Economic policies that boost aggregate demand and reduce labour market slack in the near term and improve long-term economic potential, such as increased infrastructure investments, will create jobs, reduce unemployment, and increase labour force participation rates. At the same time, policies need to be put in place to help the unemployed find jobs as quickly as possible. This will require significant additional investments in effective labour market programmes, spending on which tends to be low in North America. However, to cope with the long-term challenge of population ageing and to boost growth, further efforts will also be required to mobilise more fully all available labour resources. For under-represented groups in the labour market like women, youth and older people, this will require tailored interventions as well as better performing public and private provision of employment services to encourage and help these groups find jobs and improve their employability more generally. In the case of women, policies that help families balance their work and family lives would boost participation rates, especially for women with young children or caring responsibilities for their aged parents. In the case of youth, it is particularly important to invest in their skills and work experience, including through vocational education and apprenticeships. In the case of older workers, policies should promote greater choice in work and retirement decisions, and to facilitate employment and employability at an older age.

122. A number of noteworthy initiatives have already been taken in North America to strengthen labour utilisation. With regards to gender, both Mexico's 2012 Labour Law reforms and the 2009 Lilly Ledbetter Fair Pay Act in the United States have sought to reduce labour market discrimination against women. Mexico's Labour Law reforms have also introduced additional measures to help working mothers better juggle work with caring responsibilities. Yet more could be done in Mexico to increase child-related leave entitlements. This is also the case in the United States, the only OECD country without a national paid maternity leave policy. Similarly, women in both countries would also benefit from more investments in high-quality and affordable early childhood education and care. The Obama Administration has proposed new measures to address both issues, but it remains to be seen whether they will be enacted into law by the US Congress.

123. With regards to youth, Mexico's labour market reform has introduced initial training contracts and probationary periods, which both should encourage employers to take on young workers. To facilitate the school-to-work transition, Mexico has also launched a website providing information about labour markets, education and training opportunities. Canada has recently set up a similar career choice web tool to help students make better educational choices, and it is also placing greater focus on providing young Canadians with work experience through internships. In the case of older workers, Canada's Targeted Initiative for Older Workers (TIOW) programme provides unemployed, older workers living in small, vulnerable communities with group-based skills training and employment assistance services. In the United States, the fiscal year 2017 budget proposal recently put forth by the Obama Administration includes an increase of USD 1.5 billion to support employment services for the long-term unemployed and people who have dropped out of the labour force altogether or are only able to find part-time work. It also proposes USD 2 billion over five years for apprenticeship grants that are intended to double the number of registered apprentices.

Issues for discussion

- Which innovative models are showing promise in helping the long-term unemployed find jobs and re-enter the workforce?
- Would additional activation measures be a worthwhile investment in the current fiscal climate?
- What more can be done to help women reconcile work with family responsibilities?
- How best can governments work with social partners to strengthen long-term employment prospects for youth?
- Given rapid population ageing and pressures on the sustainability of public social expenditures, what can be done to give older people better work incentives and choices?

Raising productivity and boosting real wages

124. In both Canada and Mexico, one of the most pressing economic challenges is to raise productivity growth. This will not be possible without further investments in human capital as well as in research and development to stimulate innovation and the adoption and diffusion of best-practice technologies. Greater productivity growth will also require measures aimed at overcoming skills shortages in key sectors of the economy. In Canada, this can be achieved at least in part by promoting the inter-provincial movement of workers in regulated occupations through better labour market information and the removal of barriers to labour mobility. In the United States, the challenge is not so much how to raise productivity growth, but rather how to make sure that the fruits are better shared among workers in the form of higher wages – particularly among the least- and middle-skilled. Again, one of the best ways to achieve this is through investments in skills: raising achievement in primary and secondary schooling, strengthening vocational education and training/retraining and reinforcing collaboration with employers to improve workforce skills. The Workforce Innovation and Opportunity Act introduces a number of initiatives to increase the engagement of employers with the public workforce system.

125. In Mexico, where low productivity is closely linked with pervasive labour market informality, a bold package of reforms has been put in place to try and address the problem. The *Pacto por México* contains a range of structural measures aimed at improving competition, education, energy, the financial sector, labour, infrastructure, telecommunications and the tax system, among others. If fully implemented, these reforms are expected to increase annual trend per capita GDP growth by as much as one percentage point over the next ten years. The challenge going forward will be to fully implement this reform package. In Canada, the government has taken a variety of steps over the years to reduce barriers to labour mobility across provincial borders, including strengthening the Agreement on Internal Trade (AIT) which stipulates that any workers certified in an occupation by a regulatory authority in a province or territory will, upon application, be certified for that occupation by all other provinces and territories. In the United States, the Obama Administration has taken a variety of steps in recent years to raise the wages of workers on the lower rungs of the earnings ladder, including by beginning work to update overtime pay rules under the Fair Labor Standards Act, so that an increased share of the workforce will be covered. It is also to be hoped that recent success in accelerating job creation and reducing labour market slack will firm up the bargaining position of low- and medium-wage workers, even as it improves their employers' ability to pay higher wages.

Issues for discussion

- Which education reforms and innovation policies are most urgent and effective in raising labour productivity?
- What role for government in overcoming the no-raise recovery?

Addressing high levels of earnings inequality

126. There is nothing inevitable about high and growing inequality, yet their economic and social consequences can be significant. Recent evidence by the OECD suggests that increases in income inequality can have a negative impact on growth in addition to the hardship that people face in the lower tail of the distribution. The rise in earnings inequality in North America should therefore be halted, if not reduced. Reforming tax and benefit policies is a direct and powerful instrument for reducing inequality, but not a sufficient one, and countries will also need to consider: increases in the minimum wage where appropriate, ensuring the respect for the fundamental rights of freedom of association and collective bargaining, strengthening social dialogue, and instituting a range of measures to promote labour supply among under-represented groups. These should be accompanied by policies to create more and better jobs, as well as by measures to up-skill the workforce. In this respect, the Obama Administration's continued efforts to raise the United States federal minimum wage and then index it to inflation is a welcome development.

Issues for discussion

- Which factors have contributed most to rising inequality – increased demand for higher skilled workers, low minimum wages, decline in the workforce covered by collective bargaining, increased competition from lower-paid jobs overseas?
- Which types of policies have been introduced to foster both stronger growth and a more equal distribution of economic opportunity?

Improving job quality

127. More needs to be done not only to increase the number of job opportunities but also to improve their quality. At their 2014 Ministerial, the G20 Employment and Labour Ministers recognised that businesses are the primary source of quality jobs, and that the role of government is to foster an environment that supports job creation. Job quality refers to multiple aspects of employment that contribute to the well-being of workers and, hence, represents an inherently multi-dimensional construct. Three key aspects of these are: i) earnings quality (the level and distribution of earnings); ii) labour market security; and iii) the quality of the working environment (the nature and intensity of work performed, the organisation of work and the working atmosphere). In addition, job quality will depend on: the protection of fundamental worker rights, access to work/family benefits such as paid parental leave, training and career advancement opportunities, a safe and healthy working environment, among others.

128. Job quality can be improved in all three North American countries through improvements in earnings inequality. In Mexico and the United States, job quality can further be improved through reductions in the labour market insecurity that workers face. Labour markets in North America tend to be more flexible than in many other countries, but workers who lose their job do not always receive commensurate social protection and assistance to help them maintain their incomes and quickly find new work. More generous out-of-work income support needs, of course, to be paired with strict mutual obligations in terms of active job search and engagement in measures to improve job readiness and employability. Such active labour market measures therefore need to receive additional investment as well. Finally, in the case of Mexico, there is a need to reduce the overall level of informality, as well as to achieve better social protection for workers in the informal sector.

129. In the recent years, Mexico has put in place a significant reform package aimed at tackling informality. The 2012 Labour Law reform introduced new short-term training contracts, extended trial periods, and also facilitated hiring in seasonal/temporary and part-time jobs – all of which should encourage employers to take on workers through formal contracts. In addition, the government has introduced a number of measures aimed at reducing the costs but in particular the uncertainty in case of dismissal by capping severance payments. Mexico's Tax Reform also promotes formal activity by substantially reducing personal, social security and value-added tax obligations in the initial decade of business operation. As part of further fiscal measures introduced in July 2014, social security reductions for low-income workers (earning up to three times the minimum wage) have been introduced, amounting to a 50% subsidy during the first year, decreasing to 10% in the tenth year – which should encourage hiring into formal jobs. In the United States, the fiscal year 2017 budget proposal recently put forth by the Obama Administration includes USD 2.2 billion to support states' efforts to set up paid leave programmes for workers.

Issues for discussion

- What role should the promotion of job quality play in labour market policies?
- How do governments define high quality jobs?
- Which recent initiatives have been introduced to improve the quality of work?
- How can governments provide guidance, technical assistance and training to help employers to better utilise and strengthen workers' skills, improve productivity, and increase pay?
- How can governments work more effectively with unions to improve job quality?

Investing in skills

130. Skills upgrading will be an on-going necessity for all economies as changing skill requirements are accelerated by changing patterns of production, trade, international competition and technological innovation. These changes can be beneficial but require policies and institutions to help individuals and enterprises adapt and to help offset the risks and costs, particularly for low-income and vulnerable workers. Availability of quality, relevant training for in-demand skills and occupations is a key factor, along with accessible and timely labour market information. Partnerships between education and training providers and firms, trade unions and civil society, including apprenticeship schemes, have proven useful in ensuring that training matches the needs of firms.

131. In an attempt to boost apprenticeships, Canada has harmonised trade certification regimes by developing common provincial standards. This has doubled registrations between 2000 and 2011. An additional measure to overcome skills shortages is the Canada Job Grant, which helps employers train new or existing employees for jobs that need to be filled by offering them up to two-thirds of the direct costs of training (with up to a maximum of CAD 10 000 per grant). In return, employers are required to contribute the remaining one-third of the training costs and have a job available at the end of training. In Mexico, upper secondary education has recently been made compulsory and efforts are underway to improve the quality of schooling as well, including: the implementation of full-time schools at the national level, new standards for entering public initial training programmes, a universal teacher evaluation system, assessment mechanisms for measuring student progress, and the strengthening of school autonomy, among others. Under the leadership of Vice President Biden, the United States government has also been strengthening its job training system, including by better connecting its community college system to local employers, and President Obama recently proposed to offer free enrolment to community college students who progress on schedule in their studies. Looking forward, the fiscal year 2017 budget proposal recently put forth by the Obama Administration foresees training a half million people and placing them in jobs in high-demand sectors.

Issues for discussion

- Are skills shortages a major drag on the growth potential of the economy? Which tools can governments use to foresee skill needs in the short- and medium-term?
- How can regional and local governments work effectively with businesses and employer and worker organisations in developing in-demand training programmes?
- Which evidence-based approaches can best guide the development of skills training programmes?