Unemployment Persistency of Marginalized People in OECD Member Countries

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The OECD Employment Outlook presents yearly key labour market performances and progress in member countries. However, even after four years of the Great Recession, the 30th edition of the OECD Employment Outlook has not come with bright future for the marginalized people of the economic bloc, providing instead worrying statistical data which show a far-reaching persistency and long-run unemployment of the youth, low-skill and temporary workers, which in turn are expected to put them in high risk of ‘scarring effects’ in the years ahead.

The report points out that although vigorous policies have been launched against the fall of aggregate demand across the OECD countries, most economies of the member countries have shown a sluggish economic recovery with a considerable failure to generate sufficient jobs for the marginalized section of the society. More particularly, the news is disappointing for the Eurozone as persistent youth unemployment is still projected for the years to come, accompanying with high risk of marginalization. This can be manifested, in magnitude terms, by the fact that while the average youth unemployment rate for the OECD countries as of May 2012 was about 16%, it is still common to find more than 50% of the youths in Spain and Greece are unemployed, with significant inactive labour force population. On this regard, Germany is the only country that registers the lowest rate (8%).

This clearly demonstrates that there is a considerable degree of variability on the unemployment persistency among the OECD countries. The variability of the labour market recovery basically accounts for the difference of labour market resilience, a phrase implies to “the extent to which labour markets weather economic downturns with limited social costs.” For instance, it is evident to observe from Figure 1 that employment gaps in the OECD countries are to remain high over the coming years due to the persistency in the EU21 countries in spite of the tendency of recovery (or more labour market resilience) in some countries such as Germany, Japan and to some extent in the United States.

In fact, beyond the existing persistency, there is a fear of shift of the cyclical unemployment into long and unchecked structural unemployment. This is because in the wake of the crisis, there is merely a fragile economic recovery that unable to recover the job crisis, unprecedented over the past four decades for most OECD member countries. To be more precise, the report of the Outlook indicates that influenced by high debt crisis and lack of fiscal space at all, in countries such as “Greece, Hungary, Italy and Portugal, the economic recovery went into reverse in the second half of 2011 or has not yet started”.

Figure. 1. Unemployment is projected to remain high in OECD countries

The absence of such economic recovery may then open another room of risk in which the existing massive cyclical unemployment may be translated into structural one, which undoubtedly will again result in high risk of reducing the human and social capital of the marginalized people to their worst level. Indeed, the high fear of structural unemployment occurrence has been evidenced empirically, using the OECD’s estimates of the Non-Accelerating Inflation Rate of Unemployment (NAIRU), and estimation from the Beveridge Curve. In this sense, while the former empirical estimation shows unless a set of structural policies are set to curve the persistency, the unemployment spell is more likely to be translated into unmanageable structural unemployment in some of the member countries, the latter one traces the combinations of job seekers and job vacancies over the business cycle, and signposts that in countries where the unemployment impact of the crisis was comparatively huge and persistent, matching frictions tended to increase to high level of degree.

Such kind of low performance can be modestly justified by the following simple statistical data taken directly from the report. “By the last quarter of 2011, more than 35% of all those unemployed in the OECD area had spent a year or more out of work and looking for a job”, while it had even been worse in EU countries, as about 44% of all unemployed were long-term unemployed. Likewise, the report adds that the long-term unemployed people have faced substantial declines in well-being as a result of a greater risk of poverty, health problems and school failure. On account of this, it has become more common to observe that NEET rates rose by more than 10 percentage points in Ireland, Iceland and Spain; and 6 percentage points or more in the Czech Republic, Denmark, Norway, Portugal and Turkey.”

As the result of this pervasiveness and structural transformation of joblessness, generating decent job opportunities for those groups that are at high risk of marginalization has become a
demanding task for both governments and social partners of the OECD countries. In view of that it is equally important to bear in mind that beyond the explanation of the unemployment persistency, the 30th edition of the OECD Employment Outlook has also presented three additional extensive chapters, more or less related to the factors contributing to the high persistency and the policies that have to be taken in a way that help for (re)integrating the marginalized people into the labor market in a sustainable manner. In this way, the report in its labor market resilient section states a broad explanation as why some labor markets are so resilient in times of deep crisis, while others are too defenseless even to shallow economic slumps. In this respect, it mentions that “coordinated wage-bargaining institutions can contribute to both good structural performance and labor market resilience.” Additionally, a well-structured tax-benefit system can also play a major role in mitigating the social costs of the labor market during recession. Whereas, on the other side, institutional settings that favor the use of temporary contracts, such as stringent employment protection provisions for regular workers, are associated with both weaker structural outcomes and less labor market resilience in time of crisis.

The Outlook in its third section also discusses the replace of labor by capital has also been a contributing factor for the deterioration of employment over the last three decades. This is basically verified by the decline of the wage and other earnings share in the GDP of the member countries. On this regard, it is then suggested that investment in education and proper use of the tax and transfer system can be a help in reducing risk of unemployment. The annual report in its final section further argues that “successful transition towards a low-carbon and resource-efficient economy will reshape the labor market in ways that create new opportunities for workers, but also new risks.” The idea here is that the “shift towards greener production practices implies some changes in skill requirements, but there appear to be few uniquely green skills” which seeks another dimension of looking. This was basically demonstrated using a new simulation exercises or Computable General equilibrium (CGE) model. The concern with simulation exercises is essentially related to an effort to make the generated green works to be decent jobs in real terms so that an environment-friendly word-of-work is to be prompted continuously, with intergenerational equity consideration.

In a nutshell, the report concludes that if the dream of governments and social partners of the economic bloc is really to generate decent jobs for the marginalized section of the society and thereby coming back to pre-crisis times, instead of jumping into a double-dip recession, it certainly requires a coordinated action of all economic agents. The point here is that with existing massive gap of unemployment, countries of the economic bloc are required to generate about 14 million green jobs shortly, but sustainably. To do so the roles of labor policies in a harmonized way with macro and structural policies have to be given a top priority. Put it differently, the urgency still in the wake of the crisis is to create effective aggregate demand so that the economies of the bloc will absorb the excess labor supply. But provided that most of the OECD member countries are currently in short of fiscal space and oriented with tight fiscal policy, “promoting growth and employment-friendly-structural reforms” in line with the active labor market policies can be a promising means of rescue for the marginalized people.

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