

Thirty years of international labor research

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The Organization for Economic Co-operation and Development (OECD) is an economic bloc of 34 member countries founded in 1961 to stimulate economic progress and world trade. The OECD is well known for its research and policy recommendations. It is also an international statistical agency that compiles data on a wide variety of economic subjects. One of its major subject areas for research, policy, and statistics is the labor market, and the flagship publication in this arena is the OECD's annual *Employment Outlook*.¹ The *Outlook* is viewed as a benchmark for labor market research and forecasting. Its authors apply state-of-the-art research methods and special data compilations to reach labor market policy recommendations.

This research summary presents an overview of the *Employment Outlook* from its origin in 1983, focusing on its evolution over time, its influence on policy and statistical indicators, and possible directions for future editions. A longer version of this summary² is available on the OECD website.

Evolution of topics

It is clear that the topics covered in the

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Employment Outlook have mirrored the problems or challenges occurring in most OECD member country labor markets. High on this list is overall joblessness: from 1983 to 2012, unemployment has ebbed and flowed, with levels of 10 percent or higher, on average, reached in the mid-1980s, mid-1990s, and again in the most recent recession. Consequently, overall joblessness is covered in all editions. When unemployment has been lower, the emphasis of the *Outlook* has turned to structural unemployment developments rather than crisis levels.

The first edition set the stage for issues and policies that would reappear in future *Outlooks*. For example, early on there was a focus on youth unemployment and long-term unemployment, which have come to be persistent and seemingly intractable problems, with rates remaining high, especially in Europe, in the years since 1983.

The second edition of the *Employment Outlook* (1984) also was a stage setter, by launching what would prove to be a long-running debate on the value and ramifications of flexibility in the functioning of the overall economy. Such flexibility includes flexible labor, product, and capital markets. The flexibility argument for U.S.–Europe labor market differences developed into a full-scale debate. What does flexibility mean? It is not just wage adjustments: flexibility includes work organization, workforce mobility, and human capital formation. The debate examined the tradeoff between flexibility and employment security.

An “Active Society,” which was first mentioned in the 1988 edition of the *Outlook*, was further emphasized in subsequent editions. The OECD brought the ideas behind the concept together in a new framework that

advocates a medium- to long-term strategy and recommends a shift away from measures that generate dependency on income transfers to those which mobilize the labor supply and foster economic opportunity, improve the efficiency of labor market matching, and develop employment-related skills. The “Active Society” stresses that labor market policy is part of a larger policy package based on a broad system of monitoring and review of labor markets. Such monitoring occurred in the *Outlook* starting in 1992, with a review of the public employment service in a number of member countries.

In 1993, the OECD noted the importance of relying not just on one single labor market measure, such as unemployment, to gauge the state of the labor market, but on other important indicators as well. Mentioned were the employment–population ratio, nonemployment measures, and job quality (as measured by part-time versus full-time earnings and temporary versus permanent employment).

In 1995, the *Employment Outlook* returned to the theme of supplementary measures of labor market slack. One article introduced two additional unemployment measures: discouraged workers and involuntary part-time workers. This approach parallels the alternative unemployment indicators framework known as U-1 to U-6 and introduced by the U.S. Bureau of Labor Statistics (BLS) in 1994.³

The OECD member countries have a diversity of institutional frameworks, and digging into institutional issues and examining their labor market impact has become a trademark of the organization. An excellent example of this approach, aimed at reducing unemployment, occurred during the mid-1990s recession. Chapter 2 of the

1996 *Outlook* presented an analysis of taxes and benefits. The chapter notes that unemployment benefits and welfare amounts that are too high relative to wages may discourage working (an unemployment trap) and high marginal tax rates may discourage working more hours (a poverty trap). Although neither issue is the main cause of unemployment, reforming them can lower it.

The early part of the 21st century appears to mark a major transition in the type of articles featured in the *Outlook*. Following a few chapters on issues other than the labor market itself, but related to it (e.g., poverty reduction), the *Outlook* provided in-depth analyses of policies and institutions governing the functioning of OECD labor markets, monitored countries' employment reforms, and built policy indicators.

Marking further the transition to new topics is the stark change in the view of trade and globalization in recent years. The theme of the 2005 edition of the *Outlook* was "Globalization: Coping with the Challenge." In place of the view of trade supporting a growing job market, the *Outlook* saw trade as having contributed to a rising fear of job insecurity, especially as emerging markets in India and China began to integrate into the world trading system. We should note that this fear posited by the *Outlook* is not surprising against a backdrop of sluggish employment growth. In addition, two other developments—rapid technological advances and large, increasingly competitive workforces, notably in China and India—make it all the more important for workers in OECD countries to be ready and able to adjust quickly to new challenges and stiffer competition.

A chapter in the 2011 edition of the *Outlook* continued to investigate the topic of globalization by analyz-

ing the labor market effects of social protection systems in key emerging economies, where such systems play an essential role in addressing persistent poverty and tackling income inequality. According to the *Outlook*, the findings suggest that extending the coverage of well-designed social protection plans can contribute to improved labor market outcomes whereas poorly designed systems can weaken incentives to work and impede the development of formal employment. The chapter provides recommendations to ensure positive outcomes. The emerging markets covered are three OECD members (Chile, Mexico, and Turkey); four "enhanced engagement partners" (Brazil, China, Indonesia, and South Africa); and one economy seeking to join the OECD (the Russian Federation). The *Outlook* is thus extending its advice to a number of nonmember countries.

Evolution of analysis

The evolution of analysis in the *Outlook* parallels international comparative analytical growth over time, with more sophisticated analytical approaches, more countries included, and increased use of microdata and panel data. The *Outlook* has thus tried to keep pace with the research methods and tools of applied economic literature. Indeed, the publication can be considered a benchmark for state-of-the-art international labor comparative research.

As data on the family, on reasons for unemployment, on displaced workers, and on training became available in member countries, the *Outlook* would soon present and analyze such data from a comparative perspective. Data used in the analysis have indeed evolved from the aggregate level to the microlevel, from point-in-time data to panel data, from data on a few

countries to data on many countries, and from data on OECD countries only to data on non-OECD countries that are important in international trade.

Data types expanded in the 1990s as longitudinal datasets (i.e., datasets obtained from surveys that follow the same individual over time), microdata from household surveys, and firm-level panel data from a number of countries all became available and were used in *Employment Outlook* analyses.

The Statistical Annex has been a main feature of the *Outlook* since its inception, with statistics on major employment and unemployment indicators. Statistics added over time have included annual hours of work, duration of unemployment, and spending on passive and active labor market programs. Also, other data series related to the labor market, such as fertility rates, have appeared in and out of publication. More detailed labor market data are now available from the OECD online; the *Outlook's* Statistical Annex represents only the tip of the iceberg of available data.

The *Outlook* was responsible for introducing several new labor market-related indicators in attempts to measure a particular phenomenon. Following are a few of the more prominent ones:

- The *employment protection legislation indicator* measures the extent of employment protection a country provides. The OECD indicator of employment protection measures the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts.
- The *tax-wedge-on-labor-cost indicator* provides information on

the proportion of income tax on earnings plus the worker and employer social security contributions to total earnings.

- *Benefit replacement rates* furnish information on the value of government programs to families that are losing or have lost their primary earner. As a proxy, the OECD estimates net replacement rates: the proportion of net income from work that is replaced by unemployment and related welfare benefits. The rates, which are calculated for families whose principal earner is not working, take into account unemployment, family, and housing benefits.
- *Several other indicators* measure the extent of product market regulation and research and development intensity.

Impact of the *Employment Outlook*

Determining the impact of the *Employment Outlook* is perhaps the toughest challenge of this summary. The method used here is threefold: asking knowledgeable people their opinion, conducting formal evaluations by the OECD, and counting citations of the *Outlook* in major economic journals.

On the basis of his travels in Europe and Asia, OECD official David Grubb believes that the *Employment Outlook* has had a large impact on policy. According to Grubb, policymakers turn to the *Outlook* for international data and topical comparisons to help them figure out policy responses.⁴ The *Outlook* appears to have a long shelf life. Many users in various OECD directorates, especially the Economics Department, view the publication as an

authoritative source of labor market analysis. Jørgen Elmeskov, of that department, indicates that analysts review the *Outlook* thoroughly to help them create a view of the issue under examination. The review helps the analysts form their views on how things work, allowing them to apply general conclusions to particular situations.⁵

Former OECD official Raymond Torres suggests that the impact of the *Outlook* on policy has been mainly indirect. For example, he believes that the *Outlook* has acted as a catalyst for researchers, who, in turn, have an impact on policy.⁶ Torres's suggestion is borne out by evidence of how often the *Outlook* is cited in major economic journals. Table 1 shows the number

of citations in journals of each of the *Outlooks* since the inception of the publication. The table shows a large increase in the 1990s, with three issues registering more than 250 citations. The longer a chapter has been in circulation, the more likely it is to be cited, all other things being equal, so some of the dropoff in the decade of the 2000s will probably be mitigated over time. Another possible explanation for the aforesaid downturn in citations is the growth in international labor comparative studies published elsewhere. These other sources have perhaps lowered usage of the *Outlook* as a research tool.

The *Outlook* also is used to showcase the development and analysis of new labor market indicators. Two primary examples of indicators first published in the *Outlook* and having policy influence are the Employment Protection Legislation (EPL) index (1999) and the index called "educational attainment by labor force status" (1989). The EPL index is now published and analyzed regularly by the OECD. Regular publication of the educational index in the OECD's *Education at a Glance* followed its debut in the *Outlook*, and the index subsequently was enhanced by adult literacy and adult competencies surveys. The index clearly showed that human capital mattered for labor market outcomes, particularly for the large numbers of poorly qualified adults. This outcome heightened interest among policymakers in education and training programs for adults. In the words of OECD official Gregory Wurzburg, "It is not too much of a stretch to say that the *Employment Outlook's* 1989 chapter on educational attainment provided a valuable starting point for more than 20 years of progress in taking stock of human capital and adapting policies accordingly."⁷

Table 1. Count of *Employment Outlook* citations in major economic and social journals, by year of *Outlook* edition

Year	Count
1983	46
1984	36
1985	28
1986	27
1987	47
1988	61
1989	50
1990	53
1991	132
1992	68
1993	195
1994	164
1995	99
1996	275
1997	269
1998	172
1999	271
2000	113
2001	146
2002	164
2003	79
2004	192
2005	62
2006	42
2007	19
2008	24
2009	9

SOURCE: ISI Web of Knowledge search engine, Georgetown University Library, Washington, DC.

Of keen interest to labor ministers are policy discussions on raising the employment of underrepresented groups such as older workers or women, as well as the notion that there is no single road to high employment. Some countries deregulate labor markets; other countries protect people through well-designed policies and are rewarded with high employment. (Such policies are more expensive to the public purse than deregulation is, but there are fewer inequalities.) Well-designed unconventional policies have helped counteract orthodox policies, which rely mainly on markets and therefore neglect vulnerable groups, growing inequalities, job precariousness, and other such factors. The many chapters of the *Outlook* that have been devoted to these issues over the past couple of decades may have influenced policymaking, says Torres.

Torres and OECD official John Martin noted another indication of the success and impact of the *Outlook*:⁸ The publication has spawned other journals of international labor comparisons. For example, the European Union's *Employment in Europe* and the International Labour Organisation's *World of Work Report* are both published annually and are modeled on the *Outlook*. At the *Outlook*'s inception, there were no competing publications.

A more formal evaluation of the *Employment Outlook* in 2010 involved collecting data from meeting summaries and from a survey of policymakers in member countries. All output and responses related to the *Outlook* received a very favorable rating of "high/very high" for quality and "high" for impact. Torres recalled that in 2004 OECD member countries rewarded the work of the *Outlook* with the highest ranking in terms of quality.⁹

The future of the *Employment Outlook*

Clearly, the *Employment Outlook* is on the right track and should maintain its core value of applying statistical analysis to relevant labor policy issues. It should maintain its quality by continuing to set high standards on applied policy-relevant labor market research from a comparative perspective. It should stay the course by utilizing current, academic-level analysis to provide evidence-based policy recommendations on topical labor market issues. However, therein is a dilemma: member OECD countries would like the *Outlook* to appeal to a wider audience, yet the sophistication of the analysis has grown more mathematical. What can be done to reach a wider audience?

The world is rapidly changing as globalization intensifies. How this change will affect labor markets is not always clear and will require thorough analysis. For example, just as goods and money are moving around the world more and more freely, will people be able to do the same someday? The global labor supply is growing at the same time that demographic changes are shrinking labor supply in many OECD countries. This conjunction of events implies that as labor demand in OECD countries gains momentum, those countries may more readily look beyond their borders for workers. There will be labor supply and demand mismatches both locally and globally, and the resulting analysis of international flows of labor will be broad and extremely relevant to policymaking. Generally, more attention should be paid to the impact of emerging economies on OECD countries.

With these thoughts in mind, we suggest that future *Employment Outlooks* take up the following topics:

- Global labor supply
- Balance between job destruction and job creation worldwide
- Job quality
- Public sector job trends and their effect on the private sector
- Assessment of worker skills compared with employer needs
- Continued analysis of important non-OECD countries
- Changing gap in wage inequality
- Aging workforces
- Distribution of life cycle opportunities

Looking ahead, particularly in the context of aging populations and workforces and the rise of emerging economies, the OECD countries must continue investing in developing the skills of their citizens—sorting out mismatches between the skills possessed by the workforce and the skills that firms are demanding. That objective means putting more emphasis on skill formation and taking lifelong learning much more seriously as a policy goal. The undeniable fact is that most people stop investing in their skills by the time they are in their late thirties. In the future, OECD countries will need to invest much more in persons at mid-career—in the 40–55 age bracket, for example. That sort of investment will be a big challenge for OECD countries over the next decade or two, and governments need to get the message across to workers that they constantly have to think about upgrading the value of their skills. Incentives are needed for workers to invest in their human capital throughout their lives, within the framework of a lifelong education and training system. Analysis of these and other issues will require new data and appropriate ana-

lytical techniques provided in future editions of the OECD's *Employment Outlook*. □

Notes

¹ The website for the *Employment Outlook* is <http://www.oecd.org/employment/outlook>. Downloadable editions are available online dating back to 1989.

² See Robert Bednarzik and Constance Sorrentino, *30 Years of the OECD Employment Outlook* (Paris, OECD, July 2012), http://www.oecd.org/employment/employment_policiesanddata/30%20YEARS%20%20OECD%20EMO%20final.pdf.

³ Stephen E. Haugen and John E. Bregger, "BLS introduces new range of alternative unemployment measures," *Monthly Labor Review*, October 1995, pp. 19–26.

⁴ David Grubb, personal communication, Mar. 14, 2011.

⁵ Jørgen Elmeskov, personal communication, Apr. 2, 2011.

⁶ Raymond Torres, personal communication, Feb. 27, 2011.

⁷ Gregory Wurzburg, personal communication, Apr. 9, 2011.

⁸ John Martin, personal communication, Feb. 17, 2011, and Raymond Torres, personal communication, Feb. 27, 2011.

⁹ Raymond Torres, personal communication, Feb. 27, 2011.