

Low-wage employment

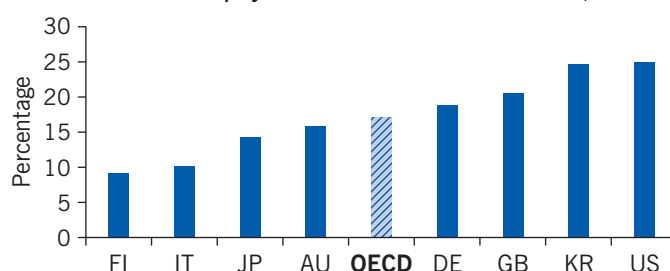
Are low-paid jobs stepping stones to higher paid jobs, do they become persistent, or do they lead to recurring unemployment?

Keywords: low-wage employment, wages, stepping stone, state dependence

ELEVATOR PITCH

Low-wage employment has become an important feature of the labor market and a controversial topic for debate in many countries. How to interpret the prominence of low-paid jobs and whether they are beneficial to workers or society is currently an open question. The answer depends on whether low-paid jobs are largely transitory and serve as stepping stones to higher-paid employment, whether they become persistent, or whether they result in repeated unemployment. The empirical evidence is mixed, pointing to both stepping-stone effects and “scarring” effects (i.e. long-lasting detrimental effects) of low-paid work.

Incidence of low pay in selected OECD countries, 2013



Note: Incidence of low pay is the share of workers earning less than two-thirds of median earnings. The OECD value is an unweighted average of all OECD countries for which data are available.

Source: Based on Figure 1.

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KEY FINDINGS

Pros

- + Having a low-paid job may be better than having no job at all.
- + Accepting low-paid jobs prevents scarring effects of unemployment that could create long-term problems for the worker.
- + Low-paid employment may serve as a stepping stone into higher-paid employment, for instance, by improving an individual’s employment-related skills.
- + For less qualified or long-term unemployed persons, low-paid jobs may offer a suitable way to re-integrate them into the labor market.

Cons

- Individuals can be trapped in low-paid jobs.
- Accumulation of human capital while working in low-quality jobs is often limited.
- Employers may interpret low-paid jobs in an individual’s employment history to be an indicator of low productivity.
- Accepting low-paid employment may be a negative signal, particularly for qualified workers, though it may be less of a problem for other unemployed persons.
- Low-paid employment can drive individuals into repeated spells of unemployment, which may result in a low-pay no-pay cycle.

AUTHOR’S MAIN MESSAGE

Although upward mobility is limited, low-wage jobs can act as stepping stones to better-paid jobs for certain groups of workers. This provides some support for the “work-first” strategy that forms the basis for welfare reforms in many countries. However, as low-wage employment is not a self-correcting problem and can induce scarring effects, a comprehensive policy approach is needed. This should include active labor market policies and a philosophy of lifelong learning that increase workers’ chances to move up to better jobs, as well as a strategy of promoting “good firms” that invest more in training and provide better opportunities for workers to acquire high-paid jobs.