

Employment Policy in the Crisis – Experiences and Roads Ahead

LO and Friedrich Ebert Stiftung, Stockholm, October 15, 2009

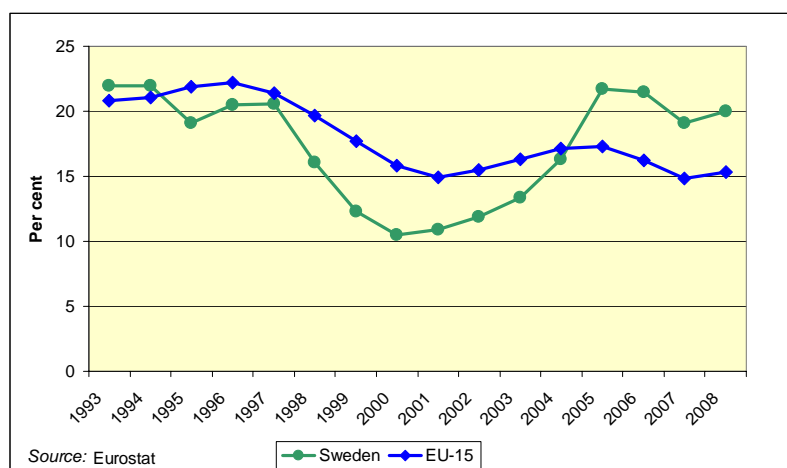
Labour Market Policies during the Crisis – lessons for the future?

Two remarks on:

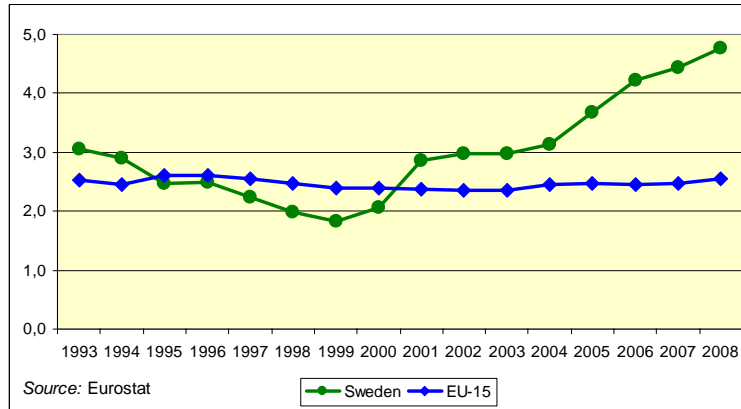
- 1) Current youth unemployment in Sweden
- 2) Moral hazard problems and active labour market policies

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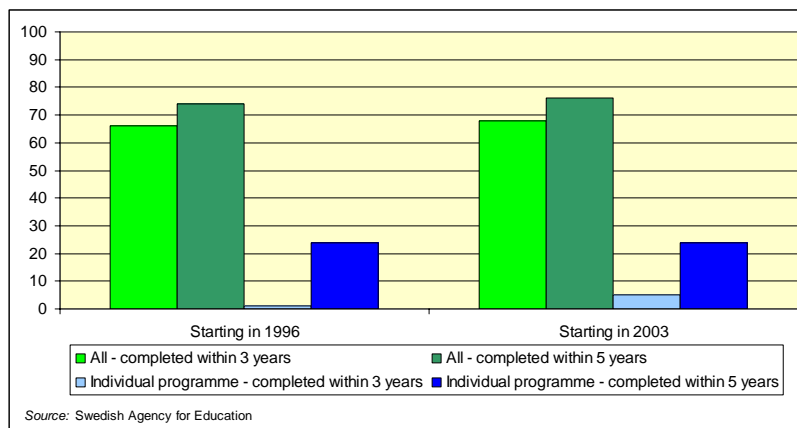
Unemployment, 15-24 years, Sweden and EU-15



Unemployment, 15-24 years relative 25-74 years, Sweden and EU-15



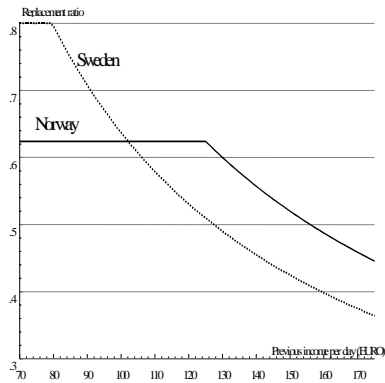
Completed high-school (gymnasium) education 3 and 5 years, respectively, after starting the education



- To which extent can the moral hazard problem embedded in generous replacement ratios and benefit durations be counteracted by active labour market policies and “soft” limitations in benefit duration?

Røed, Jensen & Thoursie (2008), “Unemployment duration and unemployment insurance: a comparative analysis based on Scandinavian micro data”, *Oxford Economic Papers*, 60(2)

Replacement ratio profiles



The unemployment insurance schemes in Norway and Sweden during the period studied, 1999-2000:

Benefit duration and extension possibilities

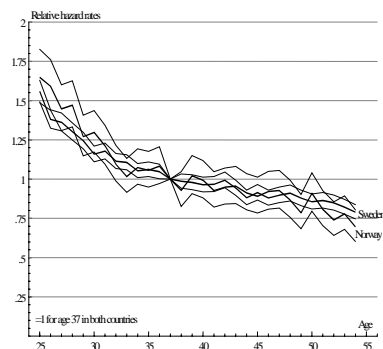
Norway: Three years; followed by cash support

Sweden: 60 weeks; benefits could be renewed through participation in labour market programs

The results indicate some striking similarities between the two countries

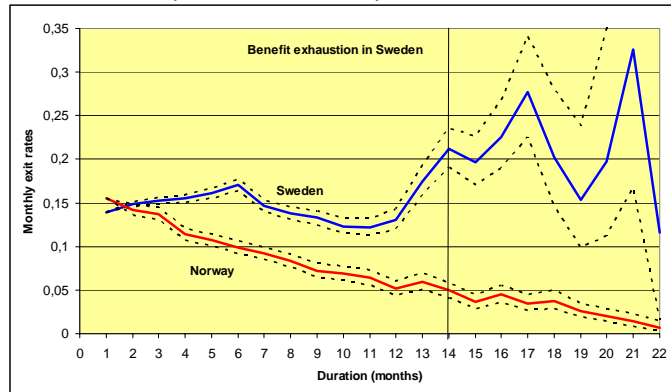
The effects of, for example age, educational attainment and relevant work experience are hardly distinguishable

Selected Maximum Likelihood Estimates				
	Norway		Sweden	
	Estimate	SE	Estimate	SE
Educational attainment				
Only compulsory school	0	ref.	0	ref.
Incomplete secondary school	0.02	0.02	-0.02	0.01
Completed secondary school	0.08**	0.02	0.07**	0.01
1-3 year College/University	0.20**	0.03	0.19**	0.01
More than 3 year College/University	0.27**	0.04	0.26**	0.01
Relevant education (with respect to wanted job type)				
	0.09**	0.02	0.23**	0.01
Relevant practice (with respect to wanted job type)				
	0.17**	0.02	0.19**	0.01



But the different benefit systems entail differences in the exit rate pattern from unemployment into jobs

Estimated monthly exit rates* in Norway and Sweden



Note: The dotted lines are 95% point-wise confidence intervals.

*For the reference group.

- Further: The effects associated with marginal changes in economic incentives are larger in Norway (a replacement ratio elasticity around -1.0) than in Sweden (around -0.5).
- This may suggest that the active labour market policies pursued in Sweden leave less scope for individuals to optimize freely with respect to search intensity and reservation wages.