

Preventing Disconnection: Recession and Beyond

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Recession and Beyond

- Output fall in Sweden likely to be 6.5% worse than 90's recession
- Employment fallen so far by around 3%
- Rise in unemp were 2.8ppts to 8%
- So employment fall < output fall
- Employment hoarding common for valuable/skilled staff but not for low skilled/new entrants
- Already youth unemployment is rising dramatically – 22%

Policy Responses

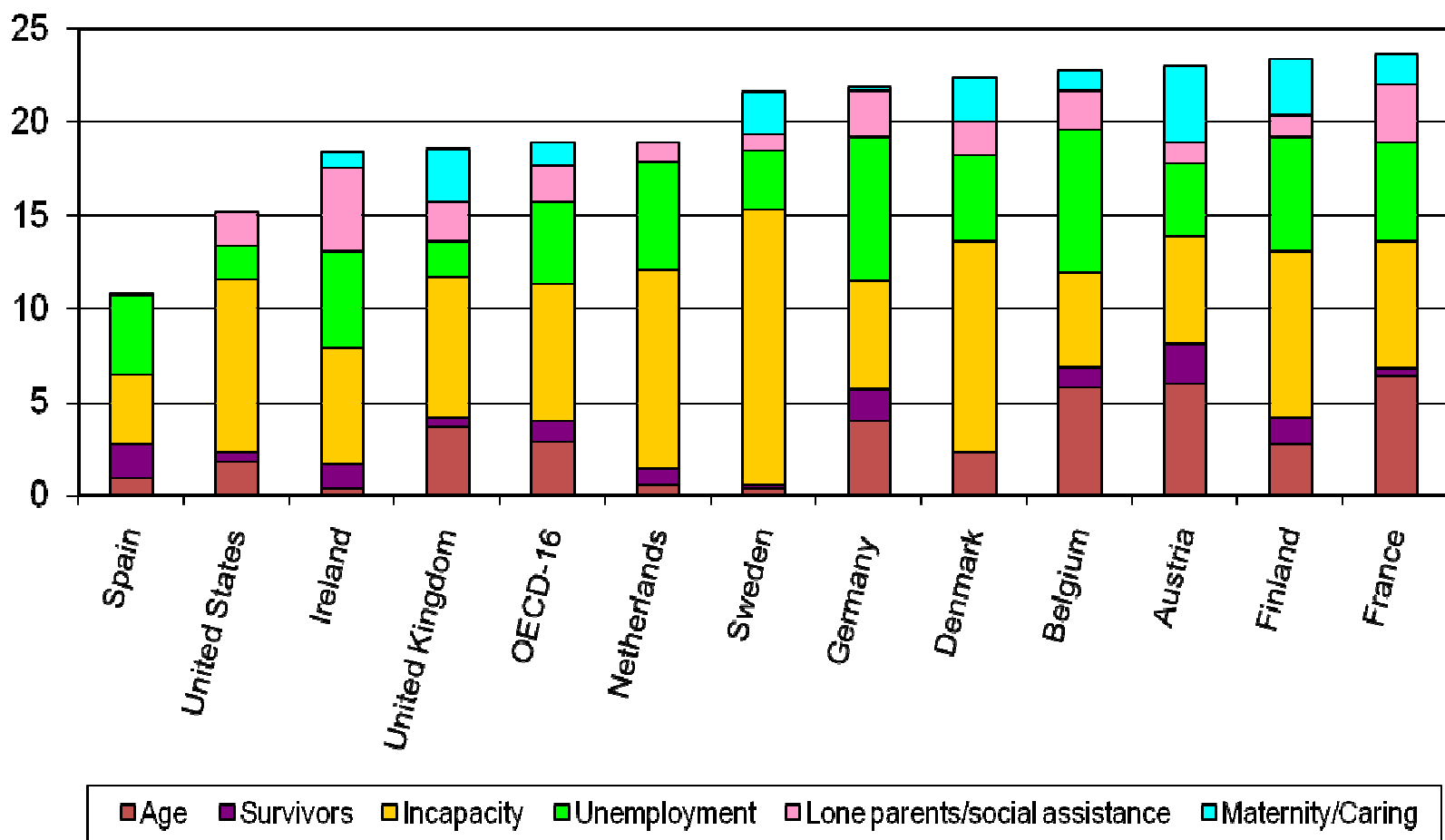
- Key risk is undertaking short-term responses which are at odds with long-term goals:
 - Difficult to reverse
 - Damaging side effects

Hysteresis and Scarring

- Previous Recession have produced three major sources of Long-term damaging effects
- Drift into Inactivity (including early retirement) – link to health deterioration
- Scarring effects of Long-term unemployment on future LM outcomes
- Pressure for wage inequality/creation of secondary labour market
- In addition there have been many ineffective ALMP which have a lock-in effect reducing job entry

Benefit receipt among people of working age, selected OECD countries, 2004

– Unemployment < 1/2 in all countries



Unemployment Scarring

- 1/3 of all men are unemployed over a 5 year window but 1/2 of all days of male unemployment fall on 6% of men
- In 1981 recession – Men under 23 experiencing 12+ months out of work spent another 30 months not in work by age 30 (18 unemp, 22 non-employed) – compared to 6 months for those 1-6 months unemp
- About 1/2 of this gap is causal rather than due to characteristics (Gregg 2001)
- Those returning to work have long lasting wage penalties – through reduced access to long-tenured jobs/career development
- Also evidence of health impact (mental and physical) from long-term joblessness
- Drift into Invalidity draws disproportionately on LTU

Secondary Labour markets

- Creation of a sector with reduced employment/social protection – low wages, short tenures, no skill/wage progression
- Creates employment as labour costs are low but –
- Exacerbates wage and unemployment scars
- Can lock-in wage inequality

Strategy 2009-2012

1. Collective Wage restraint
2. Temporarily Reduce Social Insurance costs to employers (possible targeting)
3. Prevent build up/concentration of Unemp on a small minority - LTU
4. Prevent drift on to less active benefits
5. Keep people engaged and supported on all benefits – engagement in activity, job search promotion
6. Raising educational participation among young

1. Prevent build up/concentration of Unemp on a small minority

- Promotion of active job search
- Work Experience Guarantee – useful activity in workplace or work like setting
- 20 hours per week and min wage
- Private sector if possible but Public and charitable sector led community projects
- Require job search and support activities

2. Prevent build up/concentration of Unemployment on a small minority

- Sequenced regime :
 - Period of Intensive supported job search
 - Period of Work Experience Guarantee – maintaining job search/support
 - Period of Intensive supported job search
- Placements need to demonstrate work habits and useful activity - community projects
- Placement providers or employment agency – focused on the transition to normal employment – incentive payments for outcomes