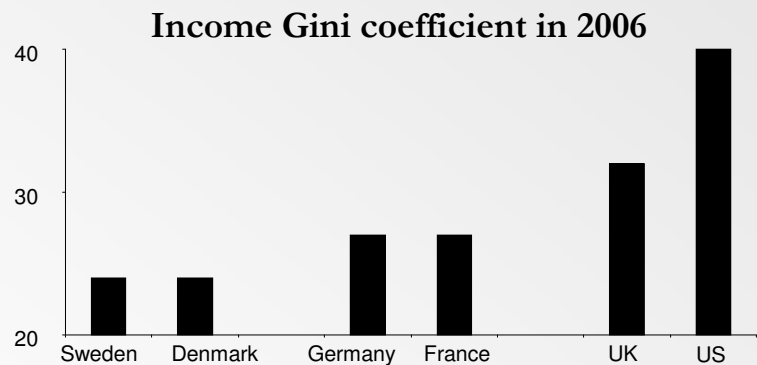
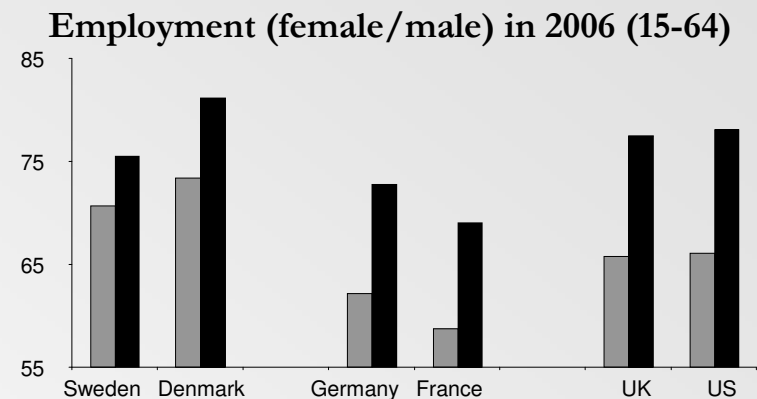


Full Employment Policy Design – During and After the Crisis



Among advanced OECD countries, there are three principal models

- Nordic model
 - High employment, also among women
 - Low degree of inequality
- Continental model
 - Low employment, especially among women
 - Medium degree of inequality
- Anglo-Saxon model
 - High employment, although less among women,
 - High degree of inequality



Source: Eurostat

The Nordic model is distinguished by its strong pro-work institutions

- Wages are set in central negotiations
 - Coverage is high
 - Unionisation rate is high
- Childcare provision is almost universal
 - Low fees provide a strong work incentive
- Labour market policy with active measures
 - Recent changes in Sweden

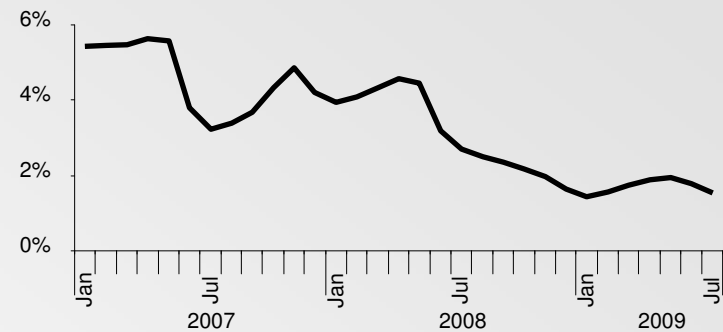
	Sweden	Denmark	EU
Collective bargaining coverage, 2000-04	92 %	83 %	66 %
Bargaining centralization degree, 2000-04	56 %	54 %	34 %
Childcare fee, share of wage in 2004	5 %	8 %	14 %
Labour market training, share of GDP in 2006	0,33 %	0,43 %	0,20 %

Sources: EIRO, OECD, Eurostat

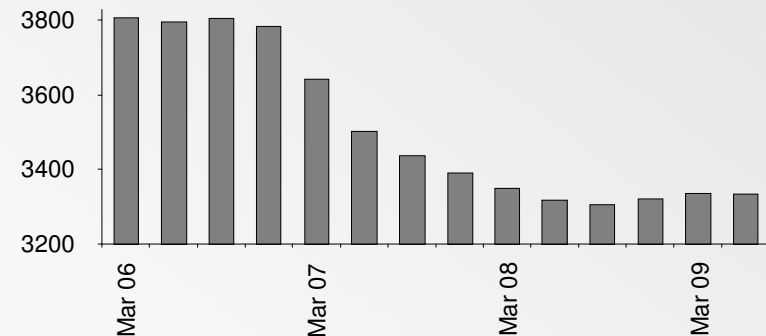
The Nordic model is put at risk by the Government's labour market experiment

- In-work tax cuts
- Less comprehensive unemployment insurance, with higher fees
- More passive labour market policy measures
- Efforts to delink unemployment insurance and unions
- Subsidies for parents to stay at home with children

Share of unemployed in training, 2007-



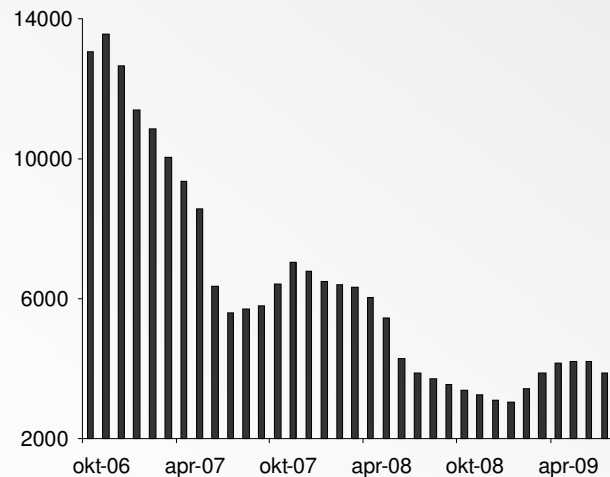
UI membership in Sweden, 2006-2009



Source: Swedish Public Employment Service and Swedish Unemployment Insurance Board

An example is the re-orientation of labour market policy from active to passive measures

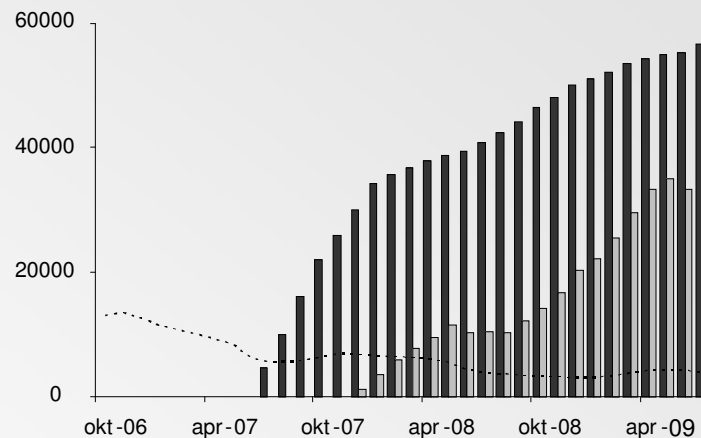
Active measures in labour market policy



The bars indicate the number of job-seekers in the Labour Market Training programme.

Source: Swedish Public Employment Service

Passive measures in labour market policy

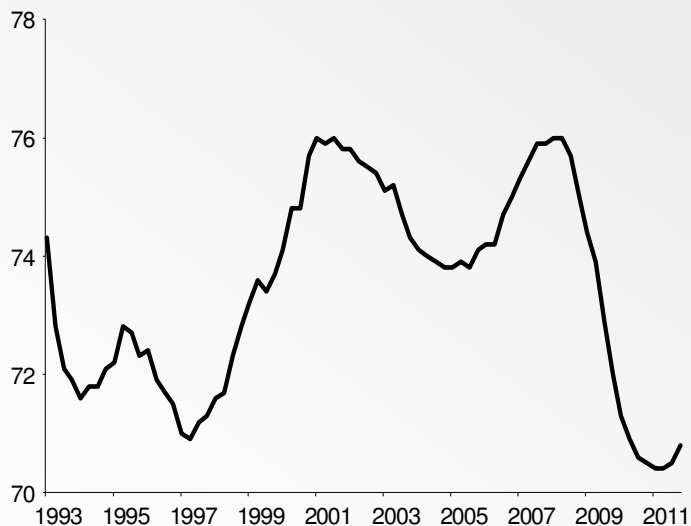


Dark bars indicate places in the Job and Development Programme, light bars in the Youth Job Programme. The dotted line indicate the number of job-seekers in the Labour Market Training programme.

Source: Swedish Public Employment Service

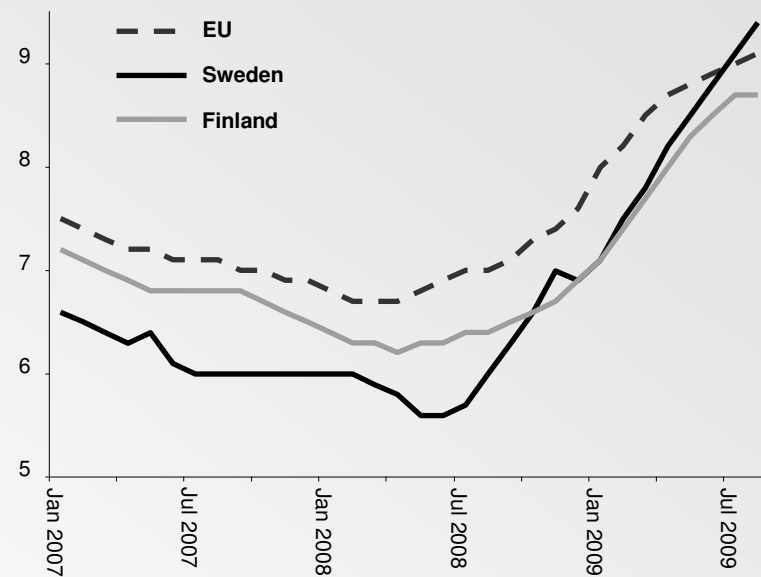
The policy has not been able to manage the economic crisis successfully

Historically low employment rate



Source: National Institute of Economic Research

Rising unemployment – also in relative terms



Source: Eurostat

The Government's fiscal response to the crisis has been slow and passive



"A further stimulation of the economy would alleviate the fall in unemployment. In combination with an active labour market policy, it could help reduce the persistent negative labour market effects that will follow the deep recession.

NIER comment to the
Government Spring Economic Bill

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL

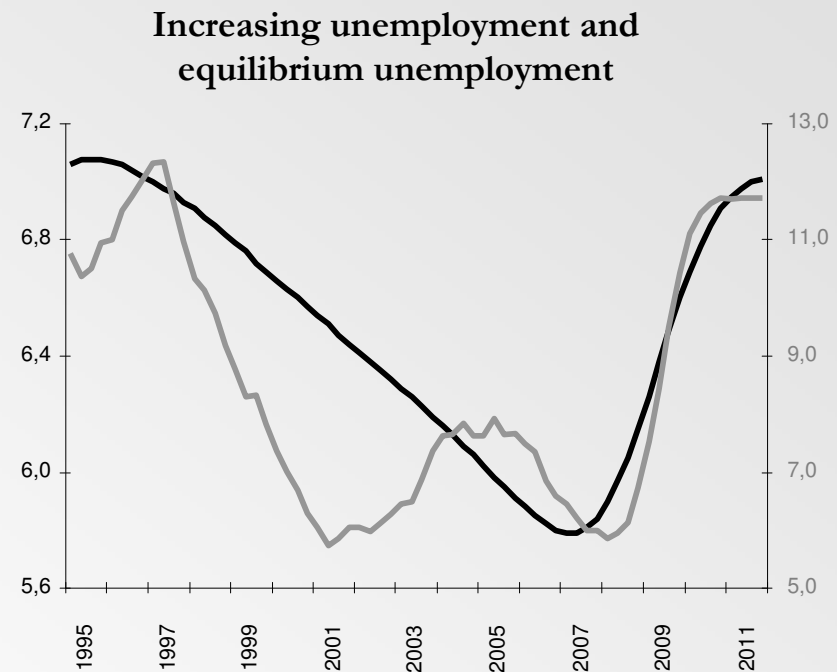
"The Government should have spent between 15 and 25 billion SEK already in 2009 in order to stimulate the Swedish economy"

"In the current situation, doing too little is more of a risk than doing too much. Therefore, one should have done more."

Interview with Chairman Lars Calmfors in
Swedish daily SvD, 6 December 2008

Long-term, prospects are equally gloomy

- In-work tax credits and lower UI have not been effective to combat NAIRU
 - Tax cuts amount to 2 percent of GDP
 - NIER has estimated a rising equilibrium unemployment since 2007
- The opportunity cost of tax money in employment policy is high
 - The Government estimates that 1 out of 3 people getting unemployed will never return.

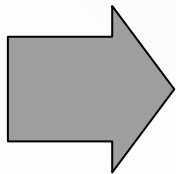


The grey curve (right-hand scale) indicates actual unemployment. The black curve (left-hand scale) indicates equilibrium unemployment.

Source: National Institute of Economic Research

The one-sided focus on pressing down the reservation wage will distort the economy

- In-work tax credits are likely to have small employment effects
 - Most elasticities of in-work tax credits stem from countries without comprehensive childcare and a high degree of means-tested benefits
- A less comprehensive UI will put more people on means-tested benefits
 - Lower replacement rates will also decrease popular support for structural adjustment
- Lower unionisation rates will worsen industrial relations and lead to less disciplined wage formation



Taking Sweden from the Nordic model to another model with higher inequality is a high-risk project. On the way, there will be a long period of disfunctionalities in the labour market.

The Social Democratic guidelines for full employment have a long-term perspective

- To meet the demographic challenge and increasing costs in the welfare state, the economy need more hours worked
- There are three major labour reserves to tap from
 - Young people must enter the labour market earlier – and be better prepared
 - We need the experience of elderly people – the actual retirement must be postponed
 - Integration of immigrants on the labour market must be more effective
- Exclusion must be prevented
 - Active labour market measures are expensive – but inactivity is not cheaper
 - A one-percentage-point increase in NAIRU costs about 0.6 percent of GDP
 - We learned from the 1990's that high-quality training, with a right and a duty for the individual to participate, works

The strategy is an empowering supply-side policy, building on the strengths of the Nordic model...

- The foundation is macroeconomic stability
 - Low inflation and sustainable public finances will be front and center
 - Financial regulation has become an important macro issue
- Reducing equilibrium unemployment will be in focus
- A well-functioning wage formation is crucial
 - De-unionization will lead to inflationary pressure – we need a well-organised labour market
- Efforts to lower labour market participation thresholds will continue
 - Examples include childcare beyond office hours and programmes for full-time employment in female-dominated sectors
 - Individuals far from the labour market should be targeted with supportive measures

...which embraces globalisation, fosters productivity and promotes full employment

- We need to protect temporary losers from globalisation and competition in a way that contributes to productivity and employment
- Life-long learning should be a reality
 - High quality from pre-school, over primary and secondary school, to higher education and vocational training – including labour market training
- Better matching on the labour market will enhance productivity
 - A combination of active labour market measures and a strong unemployment insurance contributes to productivity and employment
- We support entrepreneurship and expansion with a wide-ranging package
 - More resources to research and development, and tax reliefs for venture capital
 - Less administration and better support for export
 - Better social insurance for entrepreneurs