

**How to combat unemployment?**

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Tlf: (+45) 96 35 82 18  
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Layout: Inge Merete Ejsing-Duun

Print: Uni-Print, AAU  
Aalborg 2004

ISBN 87-90789-50-4

ISSN 1398-3024-2004-32

## **How to combat unemployment?**

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## **Foreword**

This paper is based on a keynote speech held at Cost A 13 Conference Social Policy, Marginalisation and Citizenship at Aalborg University 2-4 November 2001.

Aalborg/ Oslo, November 2003

Knut Halvorsen

## 1. Introduction

The purpose of this presentation is to discuss with you various ways of combating unemployment. My own conclusions draw heavily on contributions from members of the COST A 13 working group on unemployment, but they are in no way responsible for my interpretations of the results they have presented from various countries within the European Union. Let me at the outset stress that my primary focus is on how to combat *total levels of unemployment*. More selective measures of changing the *composition of unemployed* for example geared towards youth unemployed or problems related to geographical concentration of unemployment are only briefly mentioned.

The structure of the presentation is like this: I start with an attempt to more precisely identify the central research question. I shall then ask: What is the actual problem? How can labour market performance be operationalised and measured? What to compare across countries and over time? Then some facts about the unemployment situation are presented. Then follows a presentation of three theoretical approaches in explaining persistent unemployment and some few diagnoses that have been suggested. I go through the empirical evidence. Based on the evidence I end up with a discussion of various solutions that have been presented and give you my own solutions.

## 2. The central question is: How full employment can be achieved.

Why is there an imbalance between demand and supply in the labour market? (Ormerud 1998, W.Korpi 2001). Is it mainly a supply-side problem or demand-side problem, or perhaps both? What matter most: international or domestic factors? Can Europe return to the Post-World War II with a virtuous circle: Full employment guaranteed by macroeconomic stabilisation policies that generated growth (manipulating aggregate demand)? Or is Schumpeterian workfare – a production oriented social policy, giving priority to low inflation and competitiveness - a way to fight unemployment? Can we learn anything from the employment miracles of the US (the “Great American Job Machine” (Goul Andersen and Halvorsen 2000), for a critique see also Buchele and Christiansen 1999), the Netherlands (“The Dutch employment miracle”, Denmark and Norway, or for that matter of the development in Sweden?

## 3. What is the problem?

Why full employment? The electorate regards unemployment as among the major social problems in Europe. (Long-term) unemployment can be regarded as a social problem because longer spells of unemployment could create greater inequality in society (many re-employed suffer wage losses for years). This could result in cumulative disadvantage for those affected, because of income loss and lower living standards, loss of self-esteem and also increased risk of poorer mental health (Halvorsen 1999, Goul Andersen 2001, Alm 2001). There is even an increased risk of poorer physical health among the very long-term unemployed for example due to increased stress and behaviour detrimental to health (T.Korpi 2001). The unemployed report higher dissatisfaction with their lives than the employed<sup>1</sup>. As long as citizenship is work based, such problems will prevail.

Especially serious is *unemployment homogeneity*, meaning that unemployment run in families: we get a polarisation between time-rich and work-rich families. Non-work households

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<sup>1</sup> This higher dissatisfaction is not only due to income loss, but also seem to be related to loss of self-esteem being without a job

represent 10-15 per cent of all in working age. These households have a high risk of income poverty and child poverty (Esping-Andersen 2001, Clasen 2002). Between 30 and 50 per cent of unemployed belong to workless households (Esping-Andersen 2001). In times of high unemployment also the employed can feel increase in vulnerability in their present jobs, which could be harmful for their mental wellbeing.

One could argue that especially *youth unemployment* is a serious social problem<sup>2</sup>, being related to problematic transition from school to work and an adult life, and which could have a damaging effect on the integration process of youngsters<sup>3</sup>, while for example short-term unemployment among older workers is not. On the other hand: Unemployed students could rarely be regarded as a social problem (Goul Andersen 2001b).

High unemployment is a (macro) economic problem if it results in huge government budget deficits because of increased expenditures and lost tax revenues.

However, some will rather regard unemployment as a solution to a problem, because it can be seen as a means of keeping down inflation, enhance productivity by disciplining the work force, and maintaining the autonomy of employers.

The way of posing employment problems represents *binary* thinking: the employed versus the *unemployed*. This simple dichotomy between employment and unemployed can be traced back to Beveridge and his vision of full employment defined as providing sufficient employment for all men who seek full-time work (Grimshaw, Rubery and Smith 1999). Unemployment is a social construct. As a result by using the ILO definition one actually understates the relative level of women's unemployment, since many of them are regarded as inactive not as unemployed. In addition to hidden unemployment, we also tend to ignore problems related to precarious work (fixed term contracts), involuntary part-time work or the working poor" for that matter.

There are alternative measures of joblessness. For example, as earlier mentioned, one could use the proportion of non-work households (work-less household rate). Using only one yardstick (low unemployment) can be misleading. Insecure jobs are not identical with secure jobs. Also problems related to discouraged workers and early retirees have to be taken into account. They are not registered as unemployed, but could nevertheless wanting, seeking and being available for a job. Unemployed who are not actively searching are regarded as "inactive", and are not included in the statistics in some countries. One can also identify voluntary unemployment for example unemployed persons who do not want to move in order to get a job. There are great measurement problems (Lewin 1996, Goul Andersen 2001b, Harkman 1999). Shall people taking part in labour market programs be regarded as employed or unemployed? There is in many countries low overlap between registered unemployment and survey-based data (Goul Andersen 2001b).

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<sup>2</sup> But it turns out from empirical studies that youth unemployment in the less individualistic Mediterranean countries is not regarded as a serious social problem, because young people are living with their parents and are supported by them. Families provide mechanisms for social integration (Bhalla and Lapeyre 1999).

<sup>3</sup> Ethnic minorities and immigrants represent other vulnerable categories who risk social exclusion.

Employment opportunities i.e. labour force participation rates (full-time equivalents or aggregate volume of working hours<sup>4</sup>) are therefore probably better indicators of successful labour market performance than unemployment rates. In the US there are large numbers of working age (male) non-employed who are not counted as unemployed. If it is adjusted for the incarcerated population, male *non-employment* rates for age group 25-54 was higher in the US 1992-93 than in Germany, France and Italy (Buchele and Christiansen 1999). For the US a *want work rate* has been produced. When in 1999 the claimant unemployment rate was 4 per cent, the ILO unemployment rate was 6 per cent, and the want work rate was 13 per cent. In 1995 the US Bureau of Labour Force Statistics published a measure of labour under utilisation (labour slack) which was twice the official rate of unemployment (Lapido and Wilkinson 2002).

Other ways of measuring employment problems is *Inactivity rates*. While in 1997 registered unemployment was 9.9 per cent the inactivity rate was 15 per cent (Furåker 2002).

When introducing other measures it also seems that apart from the US, the success of Great Britain and the Netherlands is somewhat overstated (Clasen 2002, van Oorshot 2001), while it is misleading to regard the development in Germany a complete failure (Ludwig-Meyerhofer 2002). Discouraged workers comprise close to two millions in Germany (ibid.), while hardly anyone in Denmark (Goul Andersen 2002). Due to the unification, formerly East Germany's unemployment *within* factories came into the open: Its productivity was 25 per cent of those in formerly West Germany.

We obviously have to use various criteria for evaluating "successful" employment performance in a comparative perspective.

#### **4. The facts**

What to compare across countries and over time? A problem arises when one compares figures that are not always comparable. In some countries the registered unemployed can be "hard to employ" (as in the Netherlands, according to van Oorschot, ibid.), while that is not the case in other countries, as in Denmark, or for that matter Italy where many registered unemployed actually work in the underground economy. Besides: Both numerator and denominator are manipulable figures. The figures of registered unemployed are influenced by entitlements and forms of income support for unemployed (Grimshaw, Rubery and Smith 1999). It is not uncommon to modify statistics in order to reduce official numbers of unemployed.

There are great variations across age-gender groups within countries and across countries within age-gender groups. In some countries there is geographical concentration of unemployment such as in the UK and Germany. It is also a problem that the size of the labour force fluctuates according to demographic changes (immigration), behavioural changes (females who want paid work) and political decisions (new pathways out of employment). When concentrating on for example long-term unemployed, one tends to ignore the problem of recidivism, i.e. repeated spells of unemployment over a time period.

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<sup>4</sup> From 1970 to 1999 total available work (total working hours) has only increased by 10 per cent in the Netherlands (van Oorschot 2001), and not at all from 1960 to 2000 in Norway, while 700 000 more people have entered the labour force (Halvorsen 2002). This means that there has been a huge redistribution of available work

What to use: registered unemployment or survey-based data (Lewin 1996, Goul Andersen 2001, Goul Andersen and Jensen 2002)? Anyway, both these data sets are good indicators of the *direction* in which the labour market is moving. Also long-term unemployment and youth unemployment can be relevant indicators of labour market performance.

## **5. Theoretical approaches in explaining persistent unemployment**

### **Conflict theory**

Conflict theory explains unemployment as an outcome of the conflict between capital and labour over distribution of the results of production. The outcome is dependent on the power of employees versus employers. This theory emphasises the importance of collective action and the role of left parties when in power in order to maintain full employment through macro economic policy. Increased bargaining power of capital resulting from its potential for exit, and reduced support of labour unions can thus explain increase in unemployment after the oil-price shock in 1973 resulting in a recession: It opened the windows of opportunity for a major policy change (W. Korpi 2001). One can complicate this approach which is focusing on political factors in explaining unemployment, by adding another potential conflict i.e. between insiders and outsiders in the labour market: The more security for the insns, the greater the penalty of being out (Kerr 1954).

### **Neo-classical theory**

In contrast, an exchange approach, as neo-classical economic theory, sees employment relationships as voluntary cooperation between equal parties in terms of power. From this perspective the increase in unemployment after 1973 was an outcome of labour market dysfunctioning and rigidity. I shall come back to this theory later.

### **Institutional theory**

Some sociologists argue that unemployment has to be analysed within a broader framework of so called employment systems (various working time arrangements and unpaid forms of work have to be included to the analysis of productive work (Grimshaw, Rubery and Smith 1999). It is a distributional conflict about money, time and self-esteem, and ultimately about how to secure (full) social citizenship and counteracting exclusion. Duncan Gallie and Serge Paugam use the concept unemployment welfare regimes (combined with family models), and distinguish by using three criteria – coverage, level of compensation and expenditure on active employment policies - four such regimes in Europe. The purpose is to describe the logic of particular processes of welfare regulation. The conclusion is that Denmark and Sweden are closest to a universalistic regime. The overall package of high coverage, high level of compensation, active employment policies is thought to have made a major contribution to reducing the level of long-term unemployment in these two countries (Gallie and Paugam 2000).

## **6. Diagnosis**

**Structural unemployment.** This was the explanation given in *OECD Jobstudy* from 1994. Unemployment is natural under prevailing institutional conditions. There is an imbalance between qualifications of unemployed and job requirements. Demand for low skilled labour has been reduced because of the technological development and increased competition from low-income countries. An indicator is persistent long-term unemployment in an economic

upturn. Alternatively one can use the Beveridge curve as indicator, and which shows the association between unemployment rate and vacancy rate (for Switzerland see Sheldon 2002).

A self-reinforcing process called *hysteresis* can occur if long-term unemployed are insensitive to cyclical upswings, and to countercyclical policy measures (Sheldon 2002). This does not seem very likely to be a great problem, since unemployment in all skill categories has increased during the 1990s (Hinrichs 2000, Harkman 1999) see also Danish findings (Goul Andersen and Larsen 2002, Larsen 2001, Goul Andersen 2002). Nordic studies demonstrate that most long-term unemployed are able to cope with their situation, and are able to be reintegrated into the labour market during an economic boom (Halvorsen 1999, Goul Andersen 2001, Åberg 2001). Search activity does not decrease with duration of unemployment (Harkman 1999), and no culture of dependency has emerged (Halvorsen 1999).

**Technological unemployment** “Jobless growth” because of the technological development has been proven to be wrong (Rødseth 1981). At the macro-level productivity is generally lower than economic growth.

**Cyclical (Keynesian) unemployment** focuses on lack of demand and recessions (business cycles) as the main explanation. It seems to be the most important one in the early 1990s, which saw a global decline in the growth of aggregate demand throughout the advanced industrialised countries. The effect of a slowdown is, however, mediated by the specific labour market institutions, economic structure and policies of each country.

### **Monetarist explanations**

Monetarists believe in a monetary explanation of inflation and a self-regulating labour market: Money determines prices and the market everything else. There is an equilibrium ‘natural’ level of unemployment at which inflation stabilises (NAIRU). The conventional wisdom among neo-liberal economists is that the natural rate has shifted. This is due to “the failure of wages to adjust downward to the falling demand price for labour/and or to the growing unemployability of the increasing proportion of the workforce through lack of skill and /or work motivation” (Tarling and Wilkinson 1999). These economists regard unemployment as voluntary or structural, and macroeconomic stimuli are of no use because it results in inflation due to the money supply such stimuli induce. Neo-liberals also maintain that joblessness is the result not of unemployment, but of *unemployability* (ibid.)

### **Demographic changes**

Also supply side factors could perhaps explain increase in unemployment. Although there was during the 1980s and 1990s a steady growth in the demand for labour in many countries, it was insufficient to compensate for the simultaneous increase in the supply of labour. Rapid growth in rates of female labour force participation is an indicator. Also other demographic changes such as huge number of youth entering the labour market at the same time or waves of immigrants could have a negative impact – at least in the short term. It takes time to absorb huge growth in supply of labour.

**Adverse external shocks.** It seems that the average unemployment is moved sharply up by major shocks to the economy (oil price shocks in 1973 and 1979), and when this shift has occurred this new level persists for a long period (Ormerud 1998). In Germany, the unification can explain (most) of its bad labour market performance after 1991 (Hinrichs 2000). In Finland the collapse of the Soviet-Union as its major trading partner is obvious

explanation for its poor labour market performance in the 1990s. Also liberalisation of trade barriers can represent an external shock to a country. The terrorist attack on World Trade Centre is also a shock which could trigger an economic downturn worldwide. There are interactions between shocks and institutions, so each country's ability to absorb such shocks will vary.

## 7. Empirical evidence

### Politics matter

After World War II there was a conscious pursuit of full employment and a political preference in the electorate for maintaining full employment. Left parties in power made full employment a political goal for governments. Unemployment was regarded as a curable disease and the political elites knew how to achieve full employment. OECD in its *report Inflation the Present Problem* recommended in 1970 to give higher priority to price stability. Then we got the oil price shocks in 1973 and 1979, which made governments to abandon full employment as their primary goal. In 1976 the British government abandoned its commitment to full employment. But Norway and Sweden did not do this. Since 1979 anti-inflationary policy and labour market deregulation and reforms of benefit systems have been dominant, while Keynesian economic policy has been discredited. The result has been a re-emergence of mass unemployment of inter-war proportions (Tarling and Wilkinson 1999).

### Labour market institutions and labour market rigidities?

Labour market rigidities, i.e. regulations that inhibit the development of a "free" labour market" is the standard interpretation. These rigidities could be due to: employment protection laws (obstacles against lay-offs), inflexible working time, wage setting institutions, unemployment insurance and other income support programs and strong labour unions. These factors are assumed (but not empirically documented) to be reflected in increased structural unemployment, often called the non accelerating inflation rate of unemployment (NAIRU), which is defined as the level below which actual unemployment cannot fall without increasing the inflation rate (W. Korpi 2001).

The negative role of the welfare state: opportunities for misuse (moral hazard, rent seeking) is in focus. Social expenditures are said to be harmful to economic progress because they undermine incentives to work, save and invest in a country (Bonoli, George and Taylor-Gooby 2000).

The role of unemployment insurance: Generous Welfare benefits (Calmfors and Holmlund 2000). Many studies have attempted to determine the effects of levels and duration of *unemployment benefits* on job search behaviour and exits from unemployment. It is assumed that the process of job search is negatively affected by unemployment insurance through its impact on the reservation wage.

At the *micro-level* the findings are inconclusive: they appear to be greater in the United States and the United Kingdom, than for example in continental Europe or Scandinavia<sup>5</sup>.

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<sup>5</sup> A Swedish study found that a cut in the replacement rate in unemployment insurance from 80 to 75 per cent that took effect on January 1<sup>st</sup> 1996, affected job finding rates among unemployed insured individuals. The estimates suggest that the reform caused an increase in the transition rate of roughly 10 per cent (Carling, Holmlund and Vvejsiu 1999). The results show that benefit cuts does seem to have a larger impact on the job finding rates among workers under the age of 25 than for the rest of the unemployed. Since not all unemployed receive unemployment compensation (65 per cent of registered unemployed 1990-95 in Sweden, and even fewer in Norway), the macro impact of generous benefits on unemployment levels are limited.

Neither can comparative cross-country analyses give any firm evidence of an impact of benefit levels on the level of unemployment. The small effects could be due to the impact of an opposite effect: increase in benefit levels make it more attractive for presently not eligible workers to accept jobs (or taking part in labour market programs) and thereby becoming qualified for benefits in the future (the so called entitlement effect) (ibid.). This is the reverse causality problem inherent in aggregate UI effect studies (Sheldon 2000).

There are, unsurprisingly, disincentive effects of extended benefit entitlements: increases in the duration of individual spells of unemployment. A Swiss study indicated the effect of entitlement extension was a lowering of re-employment rates between 1 and 10 per cent. But this need not increase aggregate unemployment, since the refusal of a job offer by one individual may only mean that the offer goes to another job seeker (Atkinson and Miclewright 1991, Korpi 2001). It also turns out that those with a relatively strong labour force attachment are relatively insensitive to benefit changes, while for the rest there are substantial effects on exits to non-participation (Harkman 1997).

If the level of benefits does not exceed 70-80 per cent of previous wages, it is not very likely that such benefits impacts negatively at the total level of unemployment, especially not if eligibility criteria (such as being an active job seeker, and being obliged to accept a job offer) are well administered. In most EU countries, unemployment or social assistance benefit levels are too low to affect work motivation among all but the lowest paid workers (Esping-Andersen 2001) In the Nordic countries for most of the unemployed the level of compensation is between 60 and 65 per cent (Torp 1999). This means that the opportunities for misuse (rent seeking, moral hazard) is restricted, and especially so in times with very high rates of unemployment (W. Korpi 2001).

Besides, there are other rewards from work than wages, especially for those with high work orientation. On the contrary one could argue that generous benefits helps to counteract poverty, economic strains and social exclusion among the unemployed, and thus are of great importance for maintaining the employability of the unemployed (Åberg 2000, Alm 2001, Goul Andersen 2001b). It also reduces the costs of job loss, and hence reduces insecurity among workers (Ladipo and Wilkinson 2002). Only in a period of increased shortage of labour is it worthwhile to reduce somewhat the generosity of unemployment benefits. In Norway and Denmark less generous benefits were introduced *after* a strong improvement of the labour market (Torp 1999), and cannot therefore explain much of the reduction in unemployment levels that took place after 1995. It is also doubtful whether the “Dutch employment miracle” has anything to do with welfare retrenchments (Becker 2000).

At the macro level, there are fears that a comparatively generous welfare state, such as in the Scandinavian countries, would undermine the work ethic and create welfare dependency. Since employment commitment among unemployed seems to impact on job-search and re-employment chances (Åberg 1997, Halvorsen 1999), the consequences could be negative. These fears seem nevertheless to be exaggerated. Empirical findings indicate that at least “when combined with an institutional emphasis on full employment, an encompassing welfare state is perhaps rather conducive of employment commitment than the other way round” (Hult and Svallfors 2002). On the basis of ISSP 1997 Work Orientations survey, it turns out that among Western Europe countries Denmark has the highest employment commitment,

followed by Norway and Sweden (Svallfors, Halvorsen and Goul Andersen 2001, Hult and Svallfors 2002).

It has been argued that *employment protection legislation* is a major cause of high European unemployment<sup>6</sup> (Buchele and Christensen 1999). Yet, OECD (1999a) did not find any clear statistical association between labour protection and total unemployment levels. Norway has for example rather strong labour protection laws but high levels of employment. The opposite is the case for Denmark (and Switzerland), with liberal labour protection laws but also with high employment (NOU 2000:21).

Higher levels of legally imposed *employment protection* do not necessarily cause higher unemployment, because there can be high internal flexibility (ibid.). But it may affect the demographic composition of the unemployed. It has been shown that employment protection of the existing work force could impact negatively on the job chances of young people. In countries with a less strict employment protection legislation, school leavers find a (stable) job more easily than in countries with a high strictness of employment protection legislation (van der Velden and Wolbers 2001).

*Wage setting institutions* are said to inhibit downward wage flexibility and increase unemployment. Examples are statutory minimum wages and collective bargaining. It turns out that the wage bargaining structure is of importance: centralised co-ordinated systems are performing better than decentralised ones. The findings confirm the supposed insider-outsider dichotomy in the labour market.

As for the impact of *minimum wage*, national studies show mixed results: Some US studies suggest no employment impact. Some other studies indicate that 10 per cent increase in the minimum is associated with 1 ½ to 3 per cent decline in teenage employment, but no significant impact on overall adult employment (OECD 1998). In a Norwegian study it is suggested that the high incidence of disability pensioners could be due to the fact that low wage jobs with low productivity are unavailable. High productivity, good working conditions and high wages for insiders, makes it more difficult for outsiders (marginal categories) to get an ordinary job (Bratberg, Risa and Vaage 2001).

To conclude this part: There is little evidence that liberal employment protection, lower minimum wages and improved incentives have convincing effects across countries, as assumed in OECD Jobs Strategy.

## **8. Solutions**

### **Keynesianisme in one country not possible anymore**

Due to globalisation the states steering capacity are constrained, but this does not mean a complete loss of state control. Yet, international competition is placing pressures on wage and non-wage costs. At the company level there is need for greater functional (internal), numerical (external) flexibility and greater pay flexibility (Rhodes 1998). It is more difficult to stimulate aggregate demand via deficit spending in open economies. Also autonomous adjustments of interest and exchange rates are no longer feasible tools of governments. Members of the euro-zone have given up traditional tools for managing their economies, such

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<sup>6</sup> Such legislation makes "employers hesitant to recruit workers since they consider it too costly to get rid of them again in case they are not well suited for the job tasks or if the company need to downsize" (Furåker 2001:1).

as devaluating their currency or through budget deficits. Examples of reduced possibility of an independent economic policy: The move towards fixed exchange rates (Sweden 1982, Norway 1986) made it impossible to increase competitiveness through devaluations (Moses 2000).

Economic growth is of crucial importance for combatting unemployment. Many EU countries had in the early 1990s chosen macroeconomic policies detrimental to growth. Part of the reason was the need to fulfill the convergence criteria of the Maastricht treaty. Lack of cooperative strategies among EU- countries deepened each national economic recession (Ughetto and Bouget 2002).

### **The market clearing (low wage) model) (commodification)**

As for wages it is not obvious that too high wages<sup>7</sup> could explain the poor performance of the EU-countries from 1990-98 compared to the US. Real wage rose in the EU-countries by 0.9 per cent per year as compared with 0.8 per cent in the US, while creating more jobs in the latter. This is due to the fact that increase in productivity was much higher in Europe than in the United States (Ughetto and Bouget 2000). Steady inflow of low skilled workers to the US, results in depressing wages. It is suggested that there is a trade- off between job growth and the growth of earnings of low-paid workers. Supply side measures and deregulation of labour market has been the chosen strategy for the UK since early 1980s. It has been questioned whether wage moderation can explain the improvement of the Dutch labour market (van Oorschot 2001).

### **The employment maximising model (commodification and recommodification)**

Increasing the “job content of growth” (public sector jobs, active labour market training and workfare

Active Labour market programs are aimed at reducing mismatch problems on the labour market: qualification, active job search, activation, Workfare, New Deal, “making work pay” (Clasen 2001). The importance of labour market policy (activation) is limited (Goul Andersen 2002, Larsen 2001, Martin 2000, Hardoy 2001), when using re-employment as indicator of success. The aggregate effects are doubtful. This is among other things due to “lock-in mechanisms” making people unavailable for jobs (Furåker 2002). The results vary with age and type of programs – model specification and research design (Hardoy 2001). Yet, the activated are generally satisfied by being so (Esping-Goul Andersen 2001, Dahl and Pedersen 2001). Such programs also encourage young people to take up education.

It turns out that a workplace-based vocational training system improves the transition from school to work in a country (van der Velden and Wolbers 2001, OECD 1998).

Active labour market policies at times with slow growth in employment will only result in changing the relative position of job seekers within the queue (Hinrichs 2000). Yet, this could be beneficial in the long run by maintaining more people in the labour force. The impact of workfare programmes is difficult to evaluate because “creaming” often occurs. When unobserved selection bias is dealt with, it turns out from Norway that the workfare program did not impact on labour market participation (Lødemel, Dahl and Vannevjen 2001), while studies from the Netherlands and Denmark suggest a positive effect by job training in private firms, but in these studies unobserved selection effects were not dealt with (Dahl & Pedersen

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<sup>7</sup> It is not only an advantage for employees to have wages above the market clearing levels. Also employers can benefit from it, for example to attract qualified employees and decrease turnover (W. Korpi 2001).

2001). The UK labour market programmes that had been introduced since 1998, seem to have a positive impact, particularly among young unemployed (Clasen 2002). Taking part in such programs also seems to strengthen the self-esteem and quality of life of the unemployed (Mikkonen 1999).

Barriers to employment can also exist because of statistical discrimination and prejudices by employers resulting in screening procedures excluding long-term unemployed (Harkman 1999). Such barriers do not necessarily impact on total unemployment, but could affect the composition of the unemployed stock.

**Public sector: Job creation (services).** This sector is protected from international competition (Gansmann 2001)<sup>8</sup> and adverse shocks (cf however Sweden): result low productivity (financed by high-productive export –oriented manufacturing industries). This route is dependent on willingness to pay high taxes, and wage restraint by public employees (compressed wage structure<sup>9</sup>) especially women, the solidarity contract (backed by government tax and subsidy policies). One could argue that public sector growth reduces economic growth, and thus creates unemployment. Studies do not indicate any such association (according to Bowitz and Cappelen 2001). Expansion of public sector has gone hand in hand with economic growth.

Other ways of creating more jobs are: Wage supplement to unemployed and disabled in regular jobs or establishing additional jobs. In Norway agriculture is heavily subsidized. That is also the case for shipbuilding. In the three northern counties employers are exempted from social security contributions.

### **The labour reduction model (decommodification)**

This is a model that has been used extensively in continental countries, but also in Denmark, Finland, Sweden and Norway.

The number of jobs is not fixed, but the share of labour in national income, for any given growth rate, is. How can one restrain the economic participation of people without creating social problems: delay entrance of young people into the labour market through extension of training periods/education<sup>10</sup>, pre-retirement of older workers, reduction in working hours and introduction of sabbatical leave. It has to be mentioned that even the full employment societies of Scandinavia have to a great extent used disability schemes and early retirement schemes to push people of working age out of the labour force. They are made redundant through company closedowns and/or because of poor health. This is especially the case for unskilled workers above 50 years of age. As a consequence unemployment figures look

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<sup>8</sup> Although some have argued that exposure of international trade leads governments to down-size their public sectors, but there is no empirical evidence of such a development (Castles 2001). There are no signs of a “race to the bottom” in social policy. One can in fact argue that social policy is a precondition for a country’s successful participation in the globalisation process, since it compensates the (potential) losers (the excluded or marginalised) of this process. There is no good reason for condemnation of fat welfare states, since the Scandinavian Welfare states have been rather successful in combatting unemployment (Gansmann 2001), and reducing inequality (Esping-Andersen 2001). Neither do we find any evidence that public sector jobs crowd out private sector jobs.

<sup>9</sup> Norway together with Denmark and Sweden has the most compressed wage structure in the world (Barth and Moene 2000)

<sup>10</sup> The participation of younger people in education has increased in all (West) European countries, and as a consequence fewer unemployed in the age category 16-24 years (Clasen 2002).

good, but the number of persons permanently on public support is increasing and represent a heavy fiscal burden.

**How to solve the trilemma of a service economy (Iversen and Wren 1998):**

Unemployment is the result of political priorities. There is a trade off between equality and employment (Esping-Andersen 1999, Hinrichs 2000:5). There is also a trade-off between efficiency and equality. And finally there is a trade off between: 1) Equality (working poor, poverty among unemployed, job insecurity), 2) employment and 3) budgetary constraints. The social democrats have emphasised 1 and 2, the neo-liberal 2 and 3 and Christian-democrats 1 and 3. (Gansman 2001:13ff). The US is for example characterised by highest income inequality (P90/P10 ratio) and poverty but high levels of employment (priority 2 and 3).

Because of these trilemmas there is need for a co-ordinated fiscal, monetary and wage policy (Hinrichs 2000). But all European countries experienced increased unemployment during the global recession starting in 1991 (also Switzerland, Austria and Norway).

Denmark is the only country with a consistent performance on equality, employment and budgetary constraint. When Social Democrats took over in 1993 fighting unemployment again became top priority in economic policies (Goul Andersen 2001c) Low level of state intervention in employment system and high social security (Gansmann s. 17). Public sector employment accounts for a large share of the improvement from 1993 to 1996 (Goul Andersen 2001c). Nevertheless it has been a good circle between declining unemployment and debt (ibid.).

Why do the smallest countries cope best, Belgium being the only exception (Gansman 2001:18). They are centralised states and have encompassing systems of social partnership. Besides, being open, competitive economies seem to be of importance (Finland is now regarded as the most competitive economy in the world, Norway is number 6 and Sweden number 9) (According to a report presented by World Economic Forum cited after Dagens Næringsliv 7/11/01).

## **9. Conclusions**

To conclude: There is not a single best way or single route to full employment. The country challenges differ due to dissimilar economic structures and policy legacies. One also has to take into consideration what sort of problem unemployment actually represents. An accurate diagnosis has to be the starting point. But I think that some (if not all) of the following elements are essential in combating unemployment and securing a long-term sustainable economy if put into the right institutional context in individual countries:

1. Political commitment to the policy of full employment and consensus among the social partners to give job growth priority over wage growth (wage restraint), and a “crisis consensus”, which is easiest accomplished in small and largely homogeneous countries (Hinrichs 2000:14). Co-ordinated fiscal, wage and monetary policy in the EU countries.
2. Corporatist wage setting policy, social partners and government (Norway, Austria, The Netherlands) or extremely decentralised wage setting (the US)– in order to maintaining international competitiveness.

3. Encouraging necessary structural changes (innovations and modernisation) in order to be competitive in a global economy.
4. Generous unemployment benefits combined with high labour market flexibility (Hinrichs 2000, Goul Andersen 2000).
5. Since unemployment is essentially a distributional question, the following measures may be taken as suggested by Ormerud (1998): Work-sharing (Weinkopf 1999, Suoranta 1999), combined with a more efficient use of production capacity (Olsson 1999: Reduction of standard working week<sup>11</sup>, parental, sabbatical (Nätti 1999) and educational leave and more working-time flexibility, early retirement schemes for older workers.
6. Tax financed expansion of (public) services (employment) or other service strategies i.e. subsidised affordable day care. It might also be a good idea to use tax-financed benefits in order to reduce contributions by employers, and thus increasing the likelihood of an expansion of private service sector. Thus total wages can match the low productivity in this sector.
7. Timely activation of unemployed and targeting on weak groups (+wage subsidies) (recommodification), (Hinrichs 2000, Mikkonen 1999), social responsibility of private employers (avoid statistical discrimination towards ethnic minorities, women, handicapped and elderly), and local initiatives (municipalities) for job-creation.
8. Establishing socially and individually useful activities outside formal employment, and in that way (moderately) influence labour supply (ibid.).

There are many routes to improving the employment situation, but some paths are essential if one at the same time want to fight social exclusion by creating a sustainable economy, reducing income poverty and inequality. I leave it to you to speculate further about which of these routes are the most essential ones in your country.

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<sup>11</sup> Unless labour shortages due to an ageing population and higher dependency ratio

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