

# **How far can the work principle take us?**

**Extract from the report "Hur långt räcker arbetslinjen?"**



## Summary of conclusions in the report<sup>1</sup>

Between 1996 and 2001 employment increased by 276 000 people. The upturn is not eliminated by the increased sick leave. The rise in employment between 1996 and 2001 is reduced by 33 percent if absence is disregarded and only the number of people actually in work or on holiday is measured. 67 percent of the rise in employment thus corresponds to an increase in the number of people in work (or on scheduled leave).

The number of long-term enrollees, who were registered with the employment office and without work for at least two years has fallen at the same rate as total unemployment.

The reforms in labour market policy carried out in 2000 and 2001 seem to have had an effect on the employment offices' working methods, job seeking and the transitions to work. This shows that labour market policy can contribute to maintaining a high labour supply.

We see no signs that large groups of job seekers have been marginalised in the labour market. When there are jobs to apply for the chances of getting a job improves for those who have been without work for both long and short periods.

The number of days of sickness allowance increased from 1992 to 2001 by 35 percent or from 65 million days to 88 million days. This increase is equivalent to over 63 000 years of work for one person. When unemployment rose, days of sickness allowance fell, while they doubled between 1996 and 2001.

It is mainly the really long periods of sickness, 90 days and over, which have increased since 1996.

According to Statistics Sweden's labour force survey, where the proportion of hours of sick leave in relation to normally worked time is measured, sick leave in 2001 was somewhat lower than it was ten years previously. At the beginning of the 1990s sick leave fell and then increased again at the end of the decade.

The population of an economically active age, 16-64 years, is greater today than ten years ago and the proportion of older people, who have a higher rate of sickness, has increased. If the effects of the increase in population and the change in age composition among women and men are removed from the increase in the number of days for which sickness allowance is paid, the increase is reduced by 31 percent.

The number of days with disability pension or temporary disability pension increased between 1992 and 2001 by 16 percent. As much as 64 percent of the increase can be explained by the change in group composition. Disability pensions have on average

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<sup>1</sup> Andersson, D. and Löfgren, A-K. (2002), Hur långt räcker arbetslinjen? - om sjunkande arbetslöshet och stigande ohälsa, 2002:9. LO, Stockholm

become less common in the age group of 50 and over. This is a hopeful sign and indicates a successful policy.

If measurements are taken from 1996 the effect of demography only reduces the total number of days of sickness by 26 percent. It can, however, be questioned whether 1996 was a "normal year". Many people in the labour market then had a weak position due to insecure employment or unemployment, which may possibly affect the inclination both to be sick listed and to draw disability pension.

The function of unemployment in the economy is to deter the labour force from making pay claims that are too high, so that inflation does not rise. Unemployment reduces the freedom of the labour force and its possibilities of making demands even in other respects. Increased employment has the opposite effect, which is to improve the weak position of the workforce in relation to employers and thus increase the demands and expectations of the labour force. Thus, 1996 can hardly be used as a reasonable yardstick for sick leave.

#### The way out of the crisis of the 1990s

The strong criticism of labour market policy by economists and the non-Socialist parties may be because it has had two overall purposes, or rather perhaps two effects, one of which certainly divides the parties.

1. The first purpose of labour market policy is to improve the *effectiveness of the labour market*. By this is mainly meant:
  - Facilitate the meeting between labour supply and demand by means of a national employment service, i.e. ensure that vacancies are filled and job seekers get work fast and with high quality.
  - By means of incentives and measures ensure that as great a proportion as possible of the labour force is in work, preferably full time work.
2. The second purpose has been to counteract too much imbalance in *income distribution*. It is not possible to evaluate labour market policy only on the basis of effectiveness without taking income distribution effects into account. We do have behind us a crisis of very great proportions.

It is both an advantage and a disadvantage that labour market policy in the 1990s has played a considerable social policy role. Based on the goal to limit the effects of mass unemployment on income distribution, the result can be described as creditable – it is notable how little the class income differences have been affected bearing in mind the extent of the crisis in the 1990s. The income differences increased mainly on the basis of age and not of social class. Those who were particularly affected were, however, single mothers and those who had temporary employment. Young people were more affected than older people and households with two incomes without children at home were hardly affected at all. Labour market policy and the unemployment insurance funds contributed to limiting the effects of the strong forces for increased income differentials.

In order to clarify the significance of labour market policy we can take the following contribution to the debate as a starting point. In January 1998 professor Lars Calmfors, at that time the chairman of the government's economic council, wrote a polemical article in the Swedish daily newspaper Dagens Nyheter proposing a radical right-wing reform programme: remove employment security, reduce benefit from unemployment insurance funds, raise the fees for unemployment insurance funds and reduce the wages of the lowest paid. According to Lars Calmfors in January four years ago this was necessary in order to reduce unemployment.

Calmfors is just one of many economists who have said that it is not possible to reduce unemployment without a rise in inflation. We believe this error is due to their having too pessimistic a view of the employability of those without work. Further on we will show a series of indicators that labour market policy is contributing to the maintenance of an effective supply of labour.

Let us begin with four very general, labour market related measurements of how well we have got through the crisis of the 1990s.

1. Sweden, unlike the average countries in the EMU area, has in fact succeeded in cutting unemployment by half and increasing employment without pursuing an inflationary policy or running down government finances.

This is no fabricated reduction in unemployment. The labour market policy measures have fallen radically. The proportion of labour market policy programmes in relation to total unemployment has not undergone any great change, so the falls in total and open unemployment have been in step. Behind the drop in unemployment is an increase in employment of 276 000 people or 6.9 percent. In 1996 the average number of employed was 3 963 000. In 2001 employment had increased to an average of 4 239 000 people.

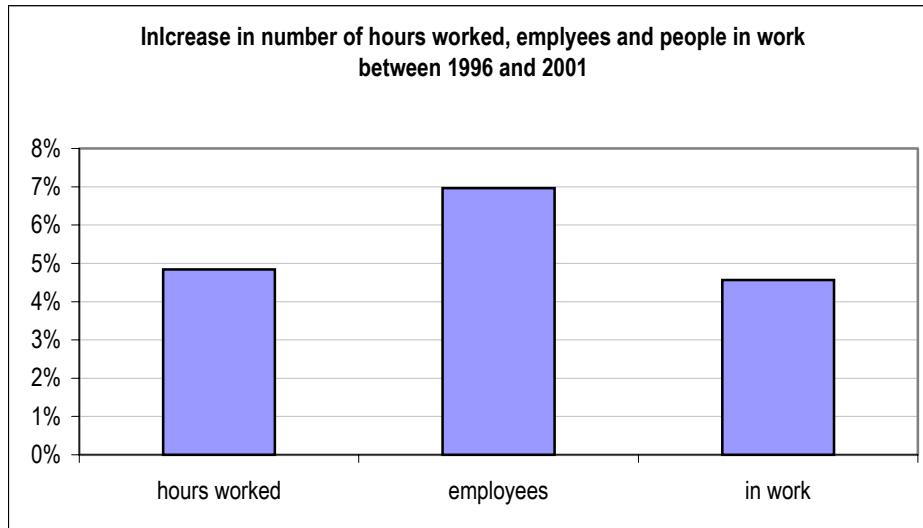
Diagram 2.1



Source: Statistics Sweden

Nor is it true, which is sometimes maintained, that the upturn is eliminated by the increased sick leave. The employment increase between 1996 and 2001 is reduced by 33 percent if absence is discounted and only the people actually in work or on holiday are measured. 67 percent of the increase in employment thus corresponds to an increase in the number of people in work (or on scheduled leave).

Diagram 2.2

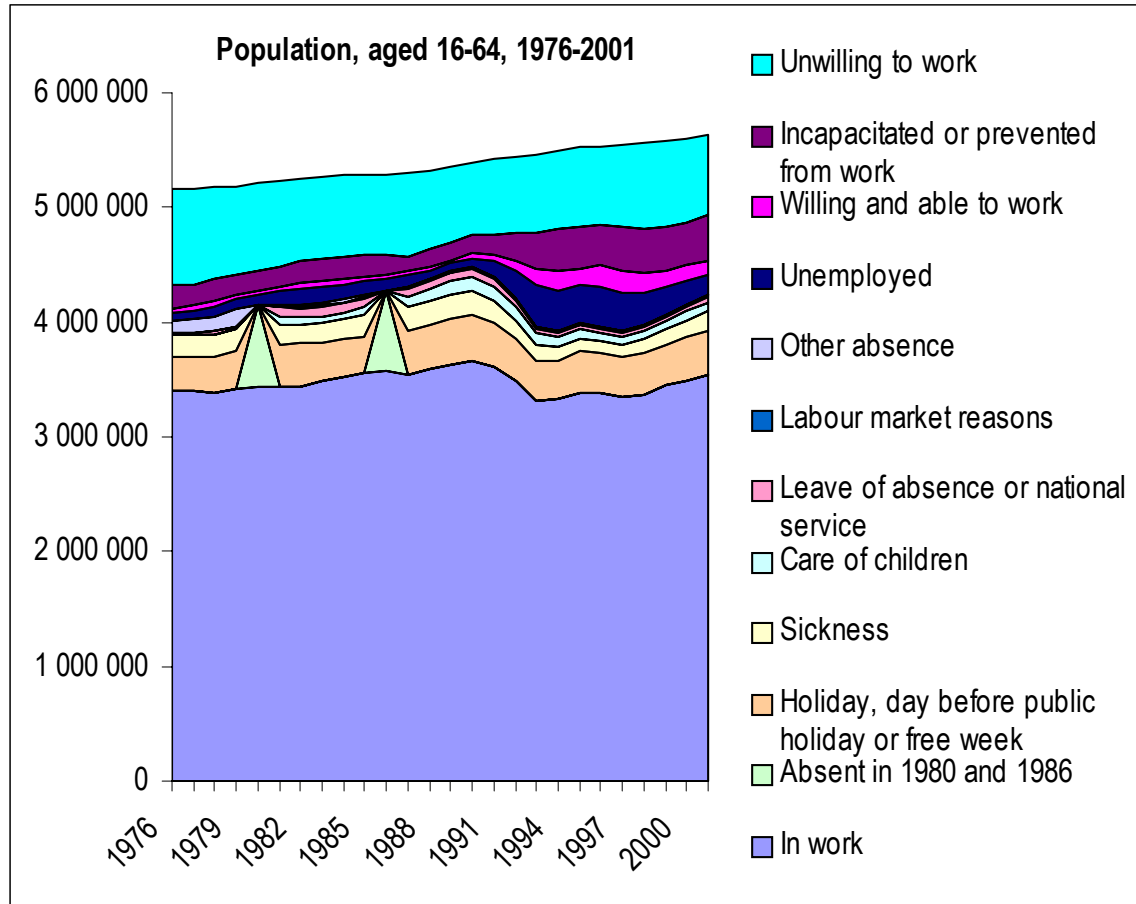


Source: Statistics Sweden (Labour Force Survey)

It is more relevant, however, to report the increase in employment in hours. This measurement is not affected by either absence or variations in working hours, it measures how much work is actually performed. Between 1996 and 2001 the number of hours worked increased by just over 300 million hours or 4.8 percent. The number of people in work increased in the same period by 154 300 people or 4.6 percent. The average working hours have, thus, increased somewhat in the same period.

Diagram 2.3 shows how the association to the labour market has been for the population of economically active age in the years 1976-2001. In a longer perspective both labour force participation and employment are low. There are both good and bad explanations for this. One good explanation is of course that fewer and fewer people have left school at the age of 16.

Diagram 2.3

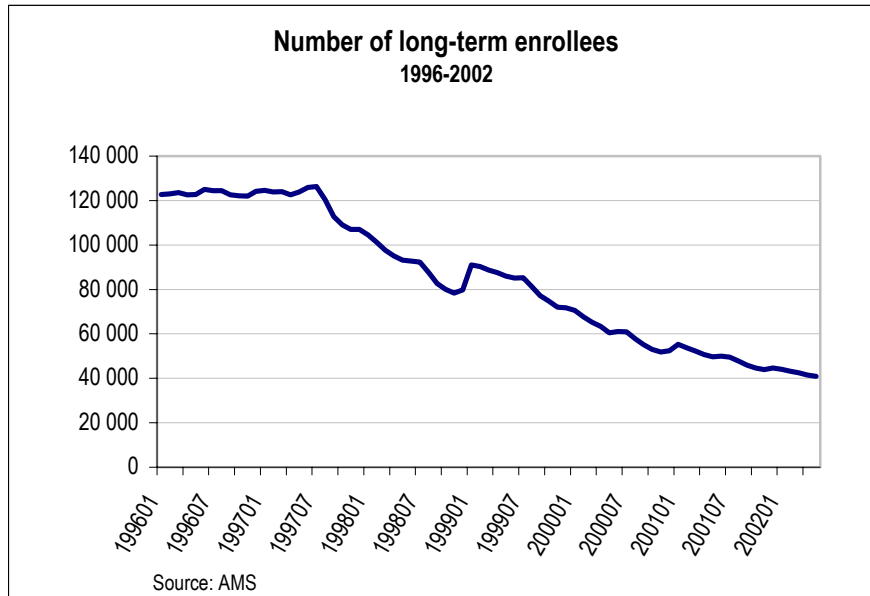


Source: Statistics Sweden (Labour Force Survey)

(We do not have access to absence broken down by reason for 1980 and 1986. Diagram 2.3 therefore only shows the total absence reported for these two years.)

2. The number of long-term enrollees who were registered with the employment office and without work for at least two years, has fallen at the same rate as total unemployment. Analyses of labour market policy have shown that a large number of programmes do not show such good results as desired. It is true that there have been many failures. In the middle of the 1990s many people said that “it’s too late, long-term enrollees will not get jobs.” But in the summer of 1997 there were 126 000 long-term enrollees registered with the employment offices and in May 2002 there were “only” 41 000 long-term enrollees left. 41 000 is a large number, but nevertheless only 1 percent of the employed. This is a great triumph for the active policy. When there is work it is not too late – they could get jobs.

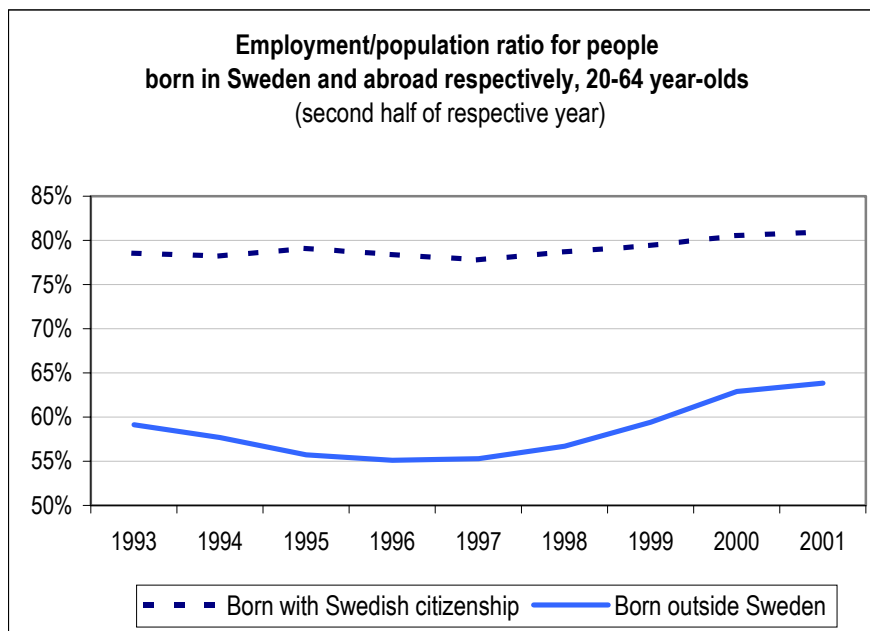
Diagram 2.4



Source: the National Labour Market Board, AMS

3. There are still groups whose ties to the labour market are far too weak. People with a foreign background often find it more difficult to find work than those born in Sweden. This is to some extent due to the fact that they do not have the skills that suit the Swedish labour market, but is also due to discrimination. The employment level of people born abroad has shown a pronounced increase since 1997 but is still much lower than for those born in Sweden.

Diagram 2.5

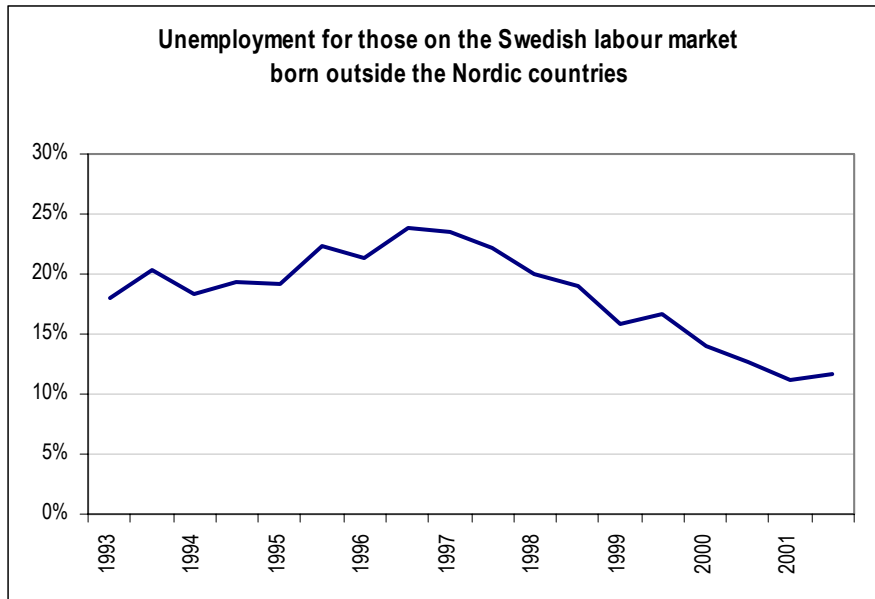


Source: Statistics Sweden (Labour Force Survey)

Unemployment among non-Nordic immigrants was cut by half between the second half of 1996, when it was 24 percent, and the second half of 2001, when it was 12

percent. Unemployment in this group is, however, still considerably higher than the average for the labour market.

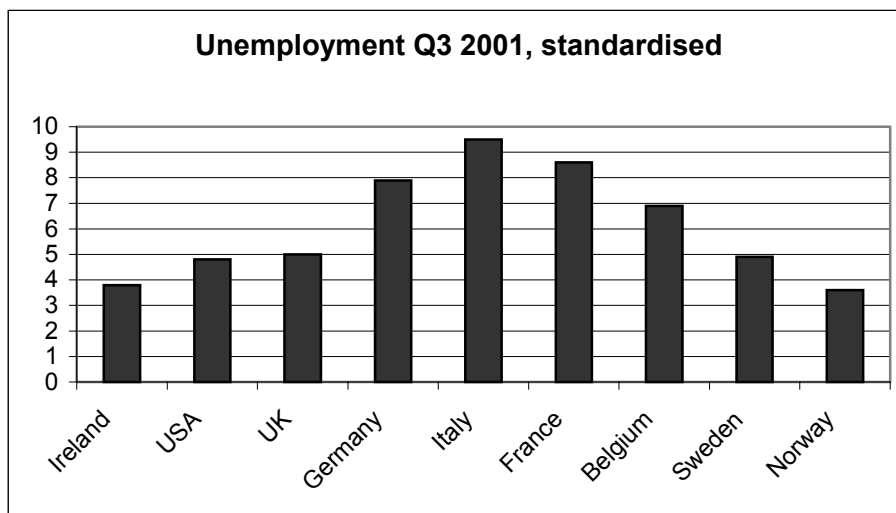
Diagram 2.6



Source: Statistics Sweden (Labour Force Survey)

4. The social sciences cannot perform experiments. But we can make comparisons between countries and social models. Swedish unemployment, measured according to the ILO's definition, can be compared relatively accurately with other countries. If we compare unemployment with that of liberal regimes such as Ireland, the United Kingdom or the USA we have an unemployment rate that is approximately the same as theirs, while the countries of continental Europe have a considerably higher unemployment rate.

Diagram 2.7



Source: OECD

Sweden followed a different path from the liberal countries. The outcome is that we had the same fall in unemployment as in a number of countries with neo-liberal social



models. Sweden has also succeeded much better than large countries like Germany, France and Italy. This shows that it is possible to follow different paths to achieve the same result as regards level of unemployment. It is not necessary to dismantle labour market policy, reduce unemployment benefit, weaken trade unions or reduce minimum wages, as Lars Calmfors and a number of economists suggested.