

**Comment on Susanne Ackum Agell, Anders Björklund
and Anders Harkman:
Unemployment Insurance, Labour Market Programmes
and Repeated Unemployment in Sweden**

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This paper is inspired by a policy decision of the former Swedish government (1991-1994) to restrict the number of times an unemployed person can participate in labour market programmes without losing his/her entitlement to unemployment benefits. The purpose is to evaluate the consequences of that decision. Since the decision was never in force for a period long enough to provide some experience of its effects, this is indeed a contrafactual exercise.

The authors are among the first to analyse the much neglected issue of the co-ordination of and interaction between labour market programmes and unemployment insurance systems. The bulk of the discussion of unemployment treats these policies as if there were no links between them. And yet, as this paper shows, exits from unemployment to participation in a labour market programmes and re-entry to unemployment have been quantitatively very important in Sweden in the 1990s.

Some five-ten years ago, the answer to the question of whether to pursue a tough policy regarding entitlement to further benefit periods would have appeared fairly straightforward. And so, nobody asked it. Nor was there any discussion of the decisions to liberalise the entitlement rules which were made at the time. The difference today is, of course, the much higher level of unemployment. The current concern is the risk of unemployment becoming persistent. There are several mechanisms which could give rise to such a development: (i) human capital depreciation due to joblessness, (ii) wage setting influenced predominantly by those who are employed, and (iii) capital shortage. These are the main explanations

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suggested in the discussion of European unemployment, but it is not evident that they are sufficient for an understanding of what has taken place. There is very little evidence in support of (ii) and (iii), and although (i) gains some support in several analyses, it is hard to conceive of a considerable fraction of the labour force having become entirely unemployable within a few years time.

A more likely development in Sweden, and the one the authors also seem to be more concerned about, is that an increasing share of the labour force experiences sequences of unemployment and programme participation spells which are seldom interrupted by periods of employment. This is common in several Western European countries. Denmark is a case in point; participation in a labour market programme after 2–2.5 years of unemployment gives an entitlement to another lengthy period of benefit receipt. As a consequence, there is a “lost generation” from the early 1980s, i.e. a significant share of the labour force that has never entered employment (Pedersen, 1994).

Could something similar happen in Sweden, too? In the past, Swedish labour market policies were successful when pursued in conjunction with counter-cyclical stabilisation policies. Adhering to the “work line” and to strict benefit rules may turn out very hard if regular jobs are not created.

There is some recent evidence of the effects of current rules which may be of relevance here. Regnér (1993) found a negative impact of participation in labour market training programmes on subsequent earnings, which he interpreted to indicate that some of the participants took courses merely as a steppingstone to further benefit entitlement. His study refers to the early 1990s, and so he captures one possible effect of the liberalisation of the benefit entitlement rules in the 1980s. Another study by Carling *et al.* (1994), also using data from the 1990s, found that the probability of transitions to labour market programmes increased substantially before the benefit period expires (see also Ackum-Agell 1995). They also found that the exit rate to employment was affected by benefit exhaustion. The evidence available on these matters indicates that the possibilities of renewing eligibility for unemployment benefits, through participation in labour market programmes which opened up in the 1980s may have had negative effects on getting people back to work. More generally, taking a closer look at recurrent unemployment, as is done in this paper, is also important in understanding the nature of the unemployment problem. If repeated unemployment spells are common, then conventional unemployment statistics provide us with a misleading

picture of the distribution of unemployment and presumably of its welfare consequences as well. This is because single spells understate the true unemployment experience of individuals. Naturally, the extent to which we are misled depends on the length of the multiple spells compared to that of single spells. In Sweden the inflow to unemployment declined in a trendwise fashion for two decades up to 1990, after which it has jumped to a higher level (Björklund, 1995). At the same time as the inflow was declining, the duration of unemployment spells increased, and the two counteracting tendencies resulted in a stable level of the unemployment rate. But the burden of unemployment has been concentrated on fewer and fewer shoulders. Indeed, the high frequency of recurrent unemployment documented by the authors reinforces the picture of a low Swedish unemployment rate being concentrated on few persons.

The high frequency of recurrent unemployment is interesting from another perspective. A key perception of Swedish labour market policy has been that its design leads to open unemployment being dominated by active job searchers. As open unemployment consists mainly of insiders, this will lead to downward pressure on wages. The authors' findings are somewhat puzzling since repeatedly unemployed persons certainly cannot be conceived of as insiders. However, the observable differences in labour market characteristics of those with only one spell and those with multiple spells are relatively small, so it is not obvious that the repeatedly unemployed are outsiders either.

There are at least two groups in the labour force where relatively much repeated unemployment could be expected. The first is employees in industries with short-term employment relationships because of strong seasonal variations in demand (construction, hotels and restaurants). The other group is youth and other labour market entrants who are searching for permanent jobs but take temporary ones in order to gain work experience and hence improve their chances in competition for the better jobs. The labour market policy effects could be expected to be more pronounced in rural regions, as it is often claimed that measures are used as a substitute for real jobs in (or for out-migration from) these areas.

Thus, in order to learn more about the nature of repeated unemployment it seems natural to look at who is actually involved. Table 5 provides some information on this issue. It should be noted, however, that the authors have chosen to compare the unemployment inflow of September 1991 with those who remained unemployed or participated in a programme 140 weeks later. The latter is the maximum duration of bene-

fits if eligibility can only be renewed once through participation in a labour market programme. The comparison is not strictly between those with one and those with several spells of unemployment because a small fraction were unemployed throughout the period and individuals with intermittent employment spells are not included. It is also possible that the picture would change somewhat if the authors had tried to control for several individual characteristics simultaneously (for instance by means of logit analysis).

At any rate, the differences among groups are small. In fact, they are surprisingly small. The background variables normally considered when examining differences in labour market performance do not show up strongly here. There are some differences with respect to gender, age, citizenship, handicap and experience, but they are not large. Moreover, differences between educational groups and regions are simply not present. The large difference between the inflow and the comparison group is the share originating from the manufacturing and construction sectors (the gender differential, which is also rather large, is probably due to the industry mix).

Although studies from other countries (Akerlof and Main, 1980; Stern, 1986; Pedersen and Westergård-Nielsen, 1987; Santamäki-Vuori, 1991) have obtained similar results, it is still noteworthy that people with repeated unemployment spells are not mainly young persons or employees in certain industries. Nor are people living in the more distant and sparsely populated regions overrepresented among the repeatedly unemployed. However, they have some of the characteristics associated with a weak position in the labour market. Proportionately more of those still unemployed after 140 weeks have non-Nordic citizenship (poor command of Swedish), a handicap, no work experience or no stated earlier occupation. The negative effects of these characteristics on individuals' employment probabilities are not likely to be affected much by changes in their behaviour. Moreover, as the authors show, a considerable share of the people who would probably be affected most by a tougher policy is from the lower end of the income distribution scale.

A crucial question concerning a tightening of benefit eligibility rules is, of course, how many people would be affected. As the authors themselves stress, their assessment is an upper limit of the direct effects as it does not take the consequence of changed behaviour (which is the aim of the policy change) into account. Given the current rules and the magnitude of unemployment, it seems clear that many individuals would be af-

fect. However, when considering changes in rules one should perhaps also reflect on the operation of the rules in "normal" times. In this respect, it is quite interesting and somewhat surprising to note that according to Table 3, in the mid-1980s, despite the changes in entitlement rules, there were no signs of change in the pattern of repeated unemployment among those with unemployment insurance benefits.

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