

Flexicurity: A Swedish Perspective

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The concept of flexicurity

- Often very vague
- Sometimes the combination of generous social insurance and low employment protection
- Denmark is the role model
 - the most generous unemployment benefits in the OECD
 - lower employment protection than in most other Western European countries, though not as low as in Anglo-Saxon countries

Level of employment protection, 2003 (OECD)

| | |
|----------------|-----|
| Portugal | 3.5 |
| Spain | 3.1 |
| France | 2.9 |
| Sweden | 2.6 |
| Germany | 2.5 |
| Belgium | 2.5 |
| Italy | 2.4 |
| Netherlands | 2.3 |
| Austria | 2.2 |
| Finland | 2.1 |
| Denmark | 1.8 |
| Ireland | 1.3 |
| UK | 1.1 |
| US | 0.7 |

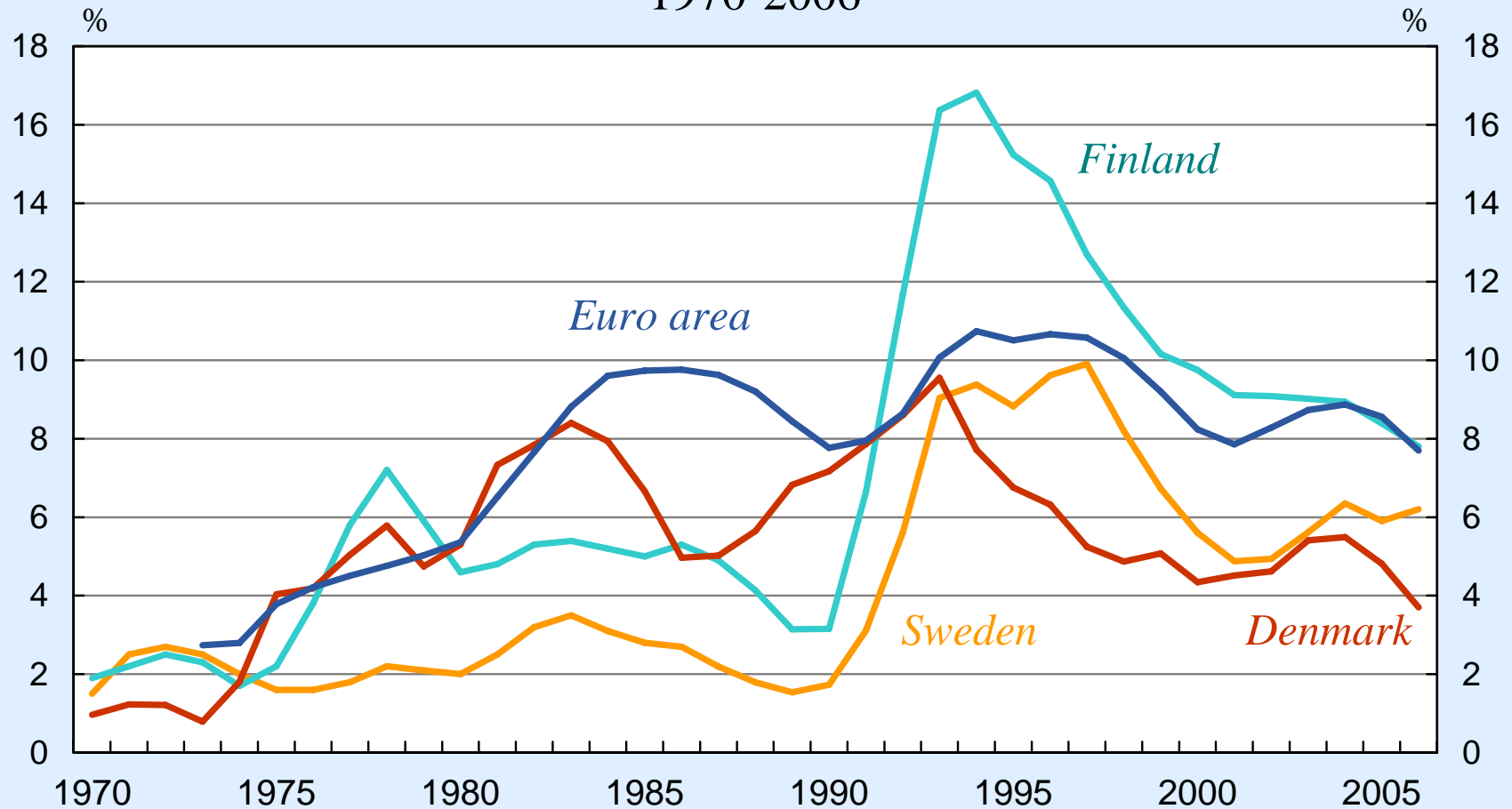
Average net replacement rate of unemployment benefits, 2004 (OECD)

| | |
|----------------|----|
| Denmark | 70 |
| Netherlands | 66 |
| Germany | 66 |
| Finland | 65 |
| Ireland | 64 |
| Sweden | 63 |
| Belgium | 61 |
| France | 57 |
| Austria | 57 |
| UK | 53 |
| Spain | 49 |
| US | 36 |
| Italy | 22 |

”Protecting jobs with **employment legislation** is definitely **detrimental** to employment, whereas protecting workers with **unemployment insurance** is potentially **useful** for employment”

André Sapir (2005)

Standardised Unemployment Rates, Percentages of Labour Force 1970-2006



Note: For Denmark and the euro area, standardised unemployment rates for earlier years have been constructed from non-standardised unemployment rates by adjusting these for differences in overlapping five-year averages. The 2006 unemployment figures have been obtained by adjusting non-standardised figures from OECD (2006d), for differences in overlapping five-year average between non-standardised and standardised series.

Source: OECD (2006d).

Swedish labour market reforms

- Antithesis of flexicurity policy as commonly perceived
- Employment regulation more or less unchanged
- Lower benefit replacement rates, mainly for the long-term unemployed
- Employment income tax credit
- Stronger search requirements for the unemployed

What does labour market research say?

1. Theoretical research
 - lower benefit generosity lowers unemployment
 - unclear effects of employment regulation
2. Empirical studies of the behaviour of individuals
 - lower benefits reduce unemployment in large majority of studies
3. Panel studies of OECD countries
 - lower benefits reduce unemployment but no effect from employment regulation in large majority of studies
4. Quantitative simulations of theoretical models
 - key factor behind unemployment is high *effective* replacement rates (benefit relative to wage on new job)
 - unclear effects of employment protection

What did really happen in Denmark?

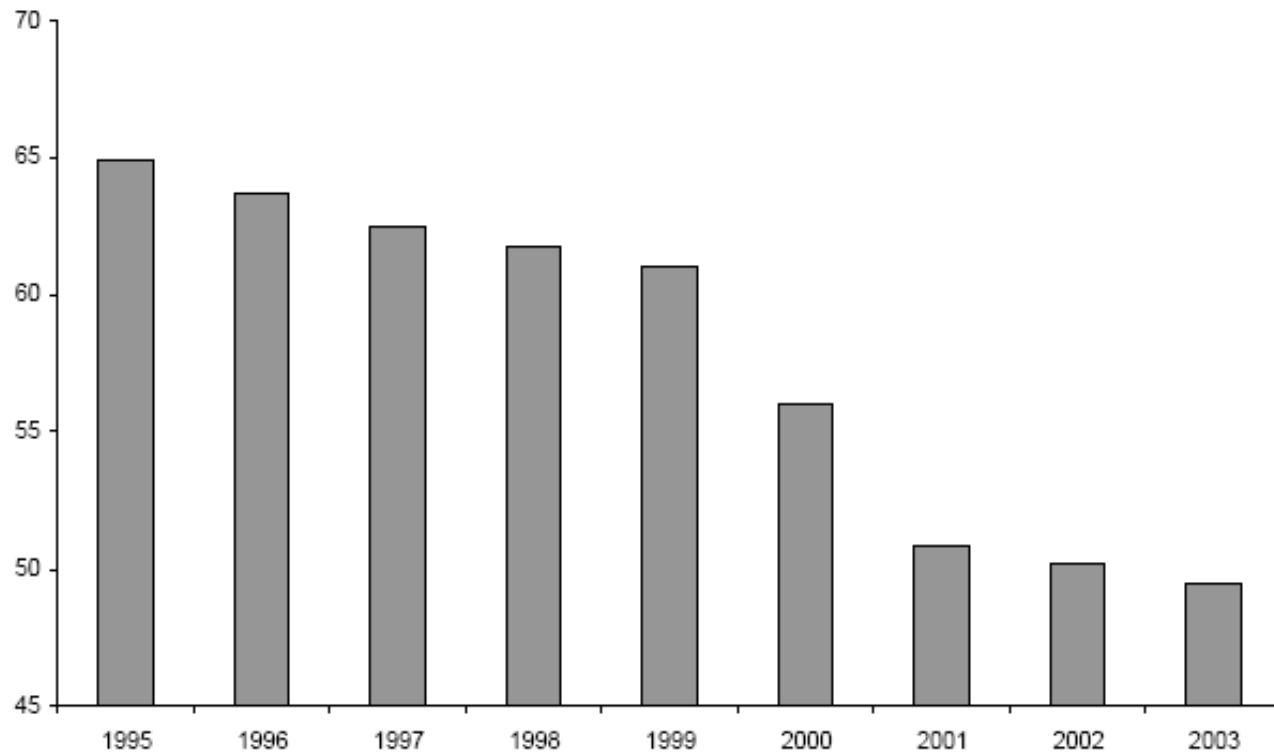
- Only marginal changes in employment regulations
- Significant cuts in benefit generosity
 - maximum benefit period has been shortened
 - compulsory to participate in activation measures at early stage of unemployment
 - *threat* effect of ALMPs

Reform intensity in Denmark 1982-2003

| | |
|--------------------------------------|------|
| Active labour market policy | 55.8 |
| Unemployment insurance | 42.3 |
| Wage formation | 27.3 |
| Pensions | 25.0 |
| Working time flexibility | 16.7 |
| Taxes/social insurance contributions | 12.5 |
| Employment protection | 10.0 |

Source:: Brandt, Burniaux och Duval (2005)

Denmark: average unemployment benefit replacement rate (%)



Main policy conclusions

- **Changes** in benefit levels are more important than **levels**
- Multiple equilibria in the labour market
 - generous benefits were OK because the unemployed could be monitored as long as unemployment was low
 - strict monitoring was no longer possible after shocks had raised unemployment
 - bad high-unemployment equilibrium
- Return to good low-unemployment equilibrium is likely to require significant benefit cut

Will the Swedish reforms work?

- The structural employment rate could rise by as much as 1.5-2 percentage points
- Structural unemployment could fall by 0.5 percentage points

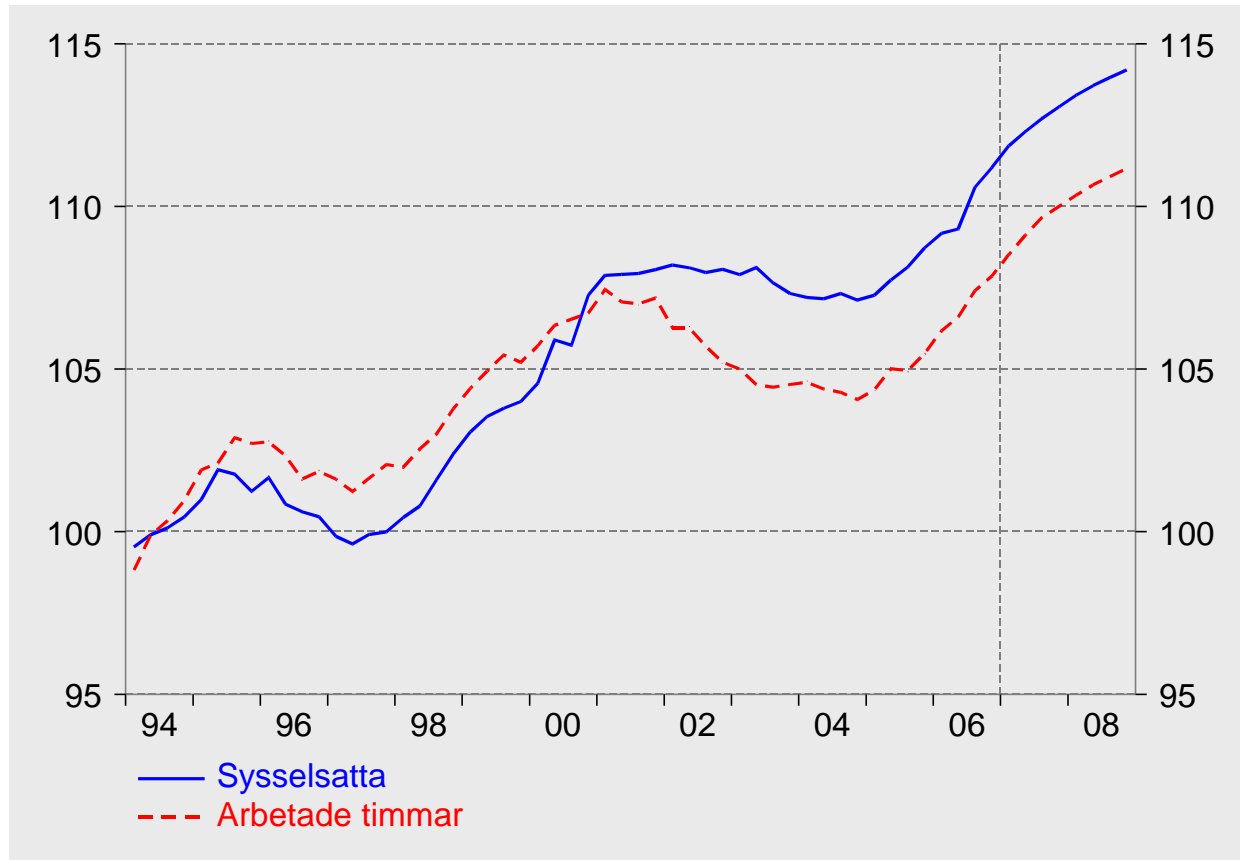
The outcome will be determined by a number of crucial factors

Timing of reforms

- Faster results if strong demand pull
- Tax cuts raising demand for youth and in service sector
- Very strong cyclical upswing
- Risk for overoptimism regarding short-run effects of supply-side reforms
- Recent collective agreements indicate wage rises of 4.5-5 %
- Crucial not to let demand increase too much
- But too low demand increases mean that the full potential of supply-side reforms may not be exploited

Number of employed (sysselsatta) and total hours worked (arbetade timmar)

Index 1994=100



Large rises in minimum wages

- Threat to job creation for the lowest skilled (not least immigrants)
- Crucial question: is government employment policy compatible with the current system of industrial relations?
- Rules regarding secondary action?

Active labour market policy

- Programmes are cut by 1-1.5 percent of the labour force
- Subsidised employment has very large crowding-out effects on regular employment
- But is it right to hold back vocational retraining?
 - bad results in the 1990s
 - but the situation is more favourable now
 - important to avoid bottlenecks

Lower employment protection after all?

- *Distribution* of unemployment can be affected
 - lower youth unemployment and lower long-term unemployment
 - some – but not strong – evidence of positive productivity effects
 - high productivity growth in Sweden but not in Denmark