Remedies to European Unemployment
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Layard, Nickell and Jackman (1991, p. 61-75) discuss several policy measures for combating high European unemployment. See if you can find one measure where you agree and another where you can disagree with the authors’ policy conclusion.

We will start with the one we agree. We agree with the author’s conclusion that any country wishing to sustain low unemployment would do well to study the example of Swedish manpower policies [1]. We will first highlight the main points and merits of this active manpower policy. They are:

The placement services (employment exchanges): These exchanges work with the unemployed to get them a job suitable to their skill sets. In this way, the workers have an excellent platform to complement their new job search.

Retraining: Workers are retrained to provide them with new skill sets. This might be important when either the worker himself wants to change the nature of his job or when the circumstances demand so. In this rapid world of technological development, the workers (especially the blue collar workers), will have to adapt to it. Due to more automatic machinery, the demand for raw manpower has decreased. But the demand for skill workers has definitely increased. Retraining will provide them with a wonderful opportunity to deal with it.

Recruitment Subsidies: These are given to employers who recruit workers that haven’t been employed for a specified period of time (6 months in case of Sweden). This encourages the employers. But a word of caution here, these recruitment subsidies should be carefully managed so that they don’t give the employer some unnecessary leverage. We will talk more about this in a short while.

Temporary Public employment and the right to work: The public sector provides jobs in case the worker has been unemployed for a long time (14 months in case of Sweden). These are more of temporary jobs which the worker leaves as soon as he gets some other job suiting with his skill set.

We agree with the author that this policy can be very effective. The employment exchanges provide the unemployed with a great platform to conduct job search. The main problem in job search is getting contacts. The employment exchanges help to mitigate this. They provide the worker with a repository which would have otherwise taken a lot of time for them to compile. Retraining is a wonderful mechanism for the workers to adapt and improve their skill set. I think this is also very important in the social context. This helps in not stereotyping people in the same kind of jobs and gives room to a lot of creativity. Recruitment subsidies are good but one should be cautious in not stretching
this too far. It should be implemented in a way that it should give more incentives to the workers and not the employers. An effective way would be to keep the track record of how different employers make use of these subsidies. For example, if large employers purposely delay their recruitment decisions to increase short term unemployment and then get subsidies for recruiting a large pool of people. This would also make the short term unemployment rate pretty volatile.

Temporary Public work as a last resort is also very effective as it’s providing some sort of employment to the unemployed. This is very relevant in the social context. This makes worker feel that they are needed in the society and that they are the part of the society. Infinite unemployment benefits suffer from this problem. Along with diminishing the skill set of workers, they also make them feel unwanted in the society. Slowly and steadily it gets into their psychology that they are unwanted and then they want to remain like that permanently. Active manpower policies are often criticized to be expensive. They are indeed expensive but they can’t be more than what governments spend in unemployment benefits. The good side of that is they help in keeping unemployment down and improving the mental status of the unemployed. We think it is much better to pay someone by making them do some work (like in public sector) instead of paying them for free. In the long term, this can be very good for uplifting the morale and skill set of the labor force. Active manpower policy is also said to displace workers from their jobs because there is limited demand for labor. But this is misleading as manpower policy has a role in the supply side and not the aggregate demand. Another point of criticism is that it provides unnecessary incentives to the employers. But we have argued that this can be mitigated by active management of subsidies and the portion that will be left will be negligible.

**We now talk about the point where we disagree.** The author argues that for a country which is already plagued with high unemployment, it is more prudent to have the active help concentrated on the workers who have been out of work for about a year to prevent long term unemployment. This will in turn reduce unemployment and the external benefit to the taxpayer from removing the second type of person is much greater than removing the first one. We think that this conclusion can be very misleading and is based on some very non – real assumptions.

The author assumes that the workers who have been out for more than a year were not able to secure employment in spite of searching and that to help them in their job search will mitigate the risk of long term unemployment. It assumes that all the long term unemployed workers are still actively searching. In reality there can be more than just long term unemployment for countries that have high rate of unemployment. The high unemployment might be the result of structural inefficiency and not a pure unemployment problem. In this case, following the above policy might be quite hazardous and might trigger the unemployment level to high extremes. We feel that more effort should go in helping the people who have been recently unemployed. The author argues that these type of workers “would on average have left unemployment fairly soon
anyway” is flawed. On the contrary, these type of workers if not helped will feed into the long term unemployed list and create problems.

We should also take into consideration that effect of decreasing skill set. People recently unemployed retain more skills than long term unemployed. It is much easier to help them find a job. The diminishing skill set for those unemployed for over a year can make the job of finding them unemployment hard and long. I think the author is looking more towards giving a temporary treatment to the disease and not helping preventing the disease to grow more.

To take a simple example, let us assume that the effort needed to help find 2 recently unemployed workers a job is equal to help one long term unemployed find a job. Now if we follow the author’s policy, then we are helping one long term unemployed getting employed but we are also endangering two workers to again get to that stage where they have been unemployed for a year. This can be very dangerous and instead of decreasing unemployment can raise it to further unreasonable levels.

In the above example, we have taken the ratio 1:2 which is very optimistic. But in the real world this would be much more difficult. Let us see why. For a recently unemployed, it is easy to gather his skill information. But for a person who has been unemployed for over a year, he goes through a period of skill readjustment which he himself doesn’t know. So the first thing is to estimate this skill readjustment. This might itself take a lot of time.

Let us also look at the social context. For workers who have been unemployed for over a year have probably already gone through that period of mental transition (of being unemployed and some of them might be so transformed that they would not like to get employed) but the recently unemployed haven’t. So it is important that we don’t allow them to go into that stage. Along with the unemployed worker, it also transforms everybody in his family which might be very bad for the society. It is like having a capsized boat where half of the people are old and half are youth. So assuming that we can save only half of them whom shall we save? The old require more help but it is the youth that will work and keep the society running. Assuming that if we even save the old, who is going to feed them once they are saved? They are anyhow going to die of starvation if there is nobody to work and provide food to them.

Our analysis says that this policy might be more detrimental than helpful. It will ultimately lead to still higher unemployment. For countries that already have high unemployment, it is important to make sure that it doesn’t go up. For that it is necessary, that we don’t let a lot of people getting unemployed. Once we stabilize that part, we can try to reduce that unemployment by either structural reforms or steadily helping the long term unemployed to acquire their lost skills and becoming employed.