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Labour market policies and the crisis: What to do - and what not to do?

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RESQ International research conference:

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Mutual Learning Programme

- Part of the EES
- National peer reviews in Member States
- Thematic reviews (conferences with invited expert papers for civil servant, politicians and social partners)



Background and Purpose

- My purpose is to discuss **general principles and guidelines** for successful labour market approaches for dealing with the crisis
- And to address some of the policies NOT to follow
- [BE AWARE OF THE SPECIFIC ORIGIN OF THE PAPER!]



Don't protect jobs – protect mobility

- A classical mantra of flexicurity (and TLM)
- Easier to follow in good times
- To "kurzarbeit" or not ..?
- What's needed is:
 - Training and retraining measures for the unemployed and those at risk of unemployment
 - Adequate levels of income support to the unemployed
 - A well functioning system of public employment services that support matching both in the short and the long run.



The need to increase labour supply is still there

- The present policy dilemma: Lack of jobs in the short run, but lack of hands (and brains) in the long run due to the ageing of the European populations
- Important to avoid policies that permanently reduce labour supply, although it is tempting as a quick fix
- Options are:
 - Flexible leave schemes
 - A focus on **education**, because a better educated workforce also leads to a higher labour supply in the long run



Unemployment reduces labour supply

- The ratchet effect: Unemployment goes more easily up than down, because unemployment leads to marginalisation from the labour market (hysteresis)
- On the other hand will a tight labour market support the integration of persons at the margin of the labour market
- Therefore unemployment should not be left to rise



Macroeconomic policy must create the demand for labour

- In the *short run*, labour market policy cannot create jobs
- Strong arguments for public investments
 - Direct and strong effects on employment
 - Can be flexibly adjusted to the business cycle
 - Lots of beneficial investment projects can be identified (infrastructure, public buildings, energy saving)
- Also arguments for immaterial public investments in R&D and human capital to support job creation in the longer term
- Benefits from coordinated policies in the EU

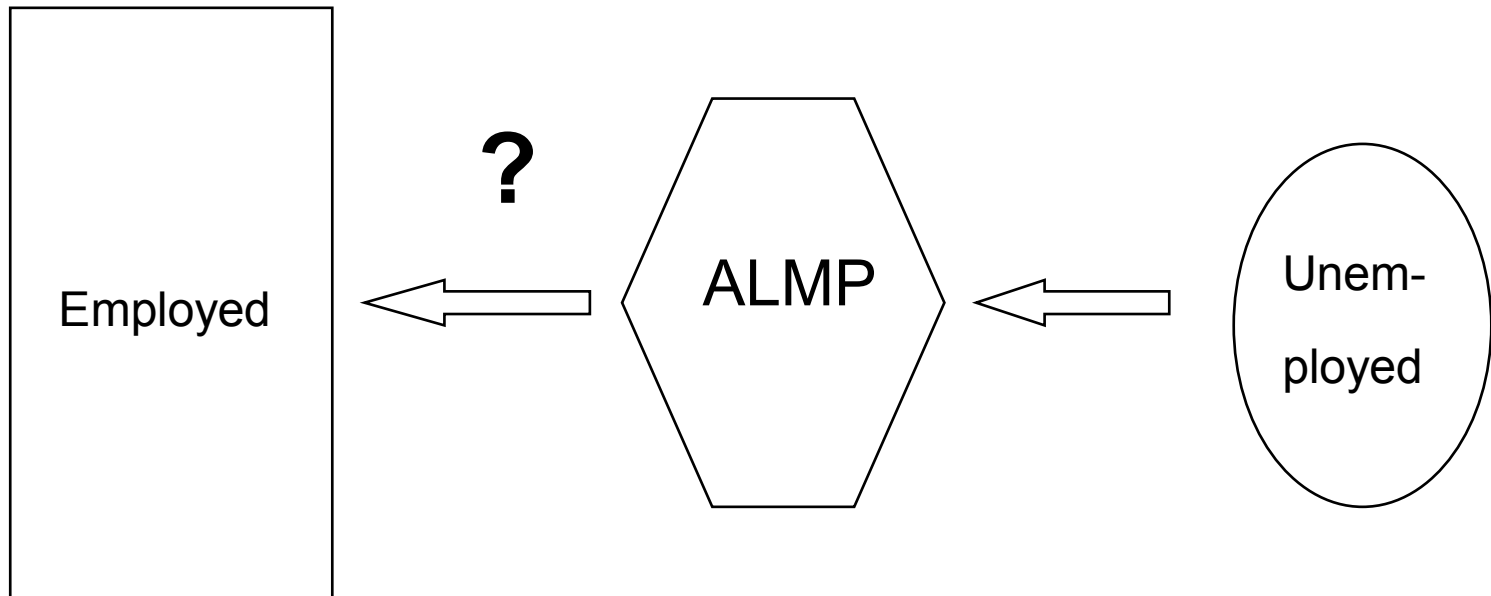


The need for policy integration

- Support positive interactions in the form of **virtuous circles** between different policy elements
- Job-rotation as an example of an integrated policy (time for a reinvention)
- Many other examples of flexicurity policies that are relevant in times of crisis

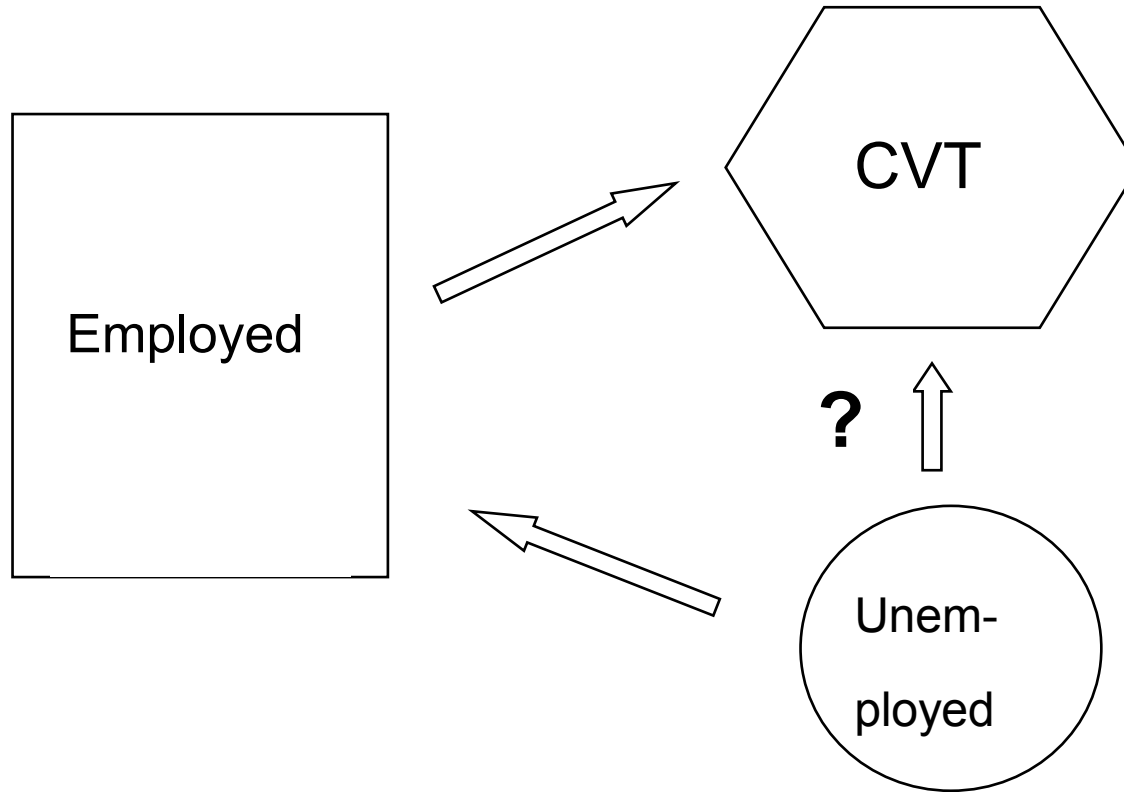


Traditional approach to ALMP





Job-rotation





Flexicurity policies and the crisis

	Job security	Employment security	Income security	Combination security (care and work)
Numerical flexibility (hiring and firing)	Temporary placement in other firm	Worker pools	Use of benefits as wage subsidy or educational support	Mortgage support
Working-time flexibility	Shorter working hours, Work-time accounts	Joint employership	Part-time UB, Reduced working hours	Leave schemes
Functional flexibility (between job functions)	Job rotation	Internships in other firms, retraining	Retraining for new job	Accreditation of prior learning
Wage flexibility (variable pay)	Adjustment of wages	Supplement wage in new job	Extra UB as compensation	Increased family allowance

Source: Adapted from presentation by Ton Wilthagen at the conference on "Implementing flexicurity in times of crisis", Prague, March 25, 2009



Focus on upgrading skills

Crisis as a **threat** to skills formation:

- Erosion of the skills of the unemployed
- Firms reduce training due to financial constraints
- Lack of apprenticeships leads to higher youth unemployment and future lack of skilled workers



Focus on upgrading skills

But the crisis is also an **opportunity**:

- Idle capacity for training and education both among the currently employed and the unemployed
- Training of the unemployed implies a lesser risk of “locking-in” effects in times of high unemployment
- Restructuring can be supported by (re)training



Implementation structures are important

- Apply **policy integration** with respect to for instance labour market policy, educational policy and environmental policy.
- Include **relevant actors** like the social partners in the design of the responses to the crisis in order to improve policy design and support “ownership”.
- Insist on **common guidelines**, but allow also for **flexible adaptation** to local needs and conditions.
- Spend the necessary economic resources on the **implementation** of policies

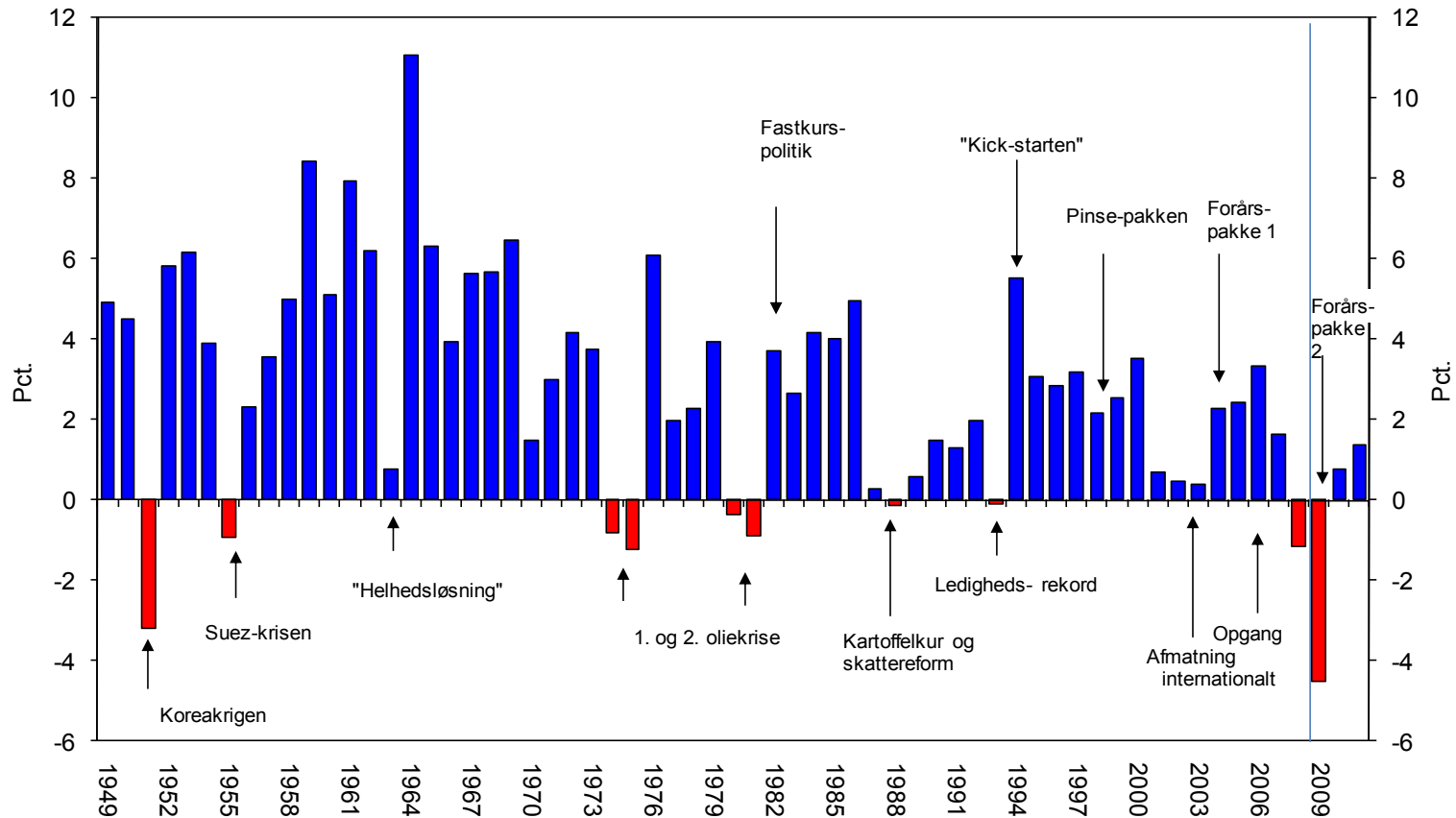


Why is it so difficult?

- We have all the good songs
- But still have difficulties in winning the war
- Could there be conflicts of interests out there?
 - Insiders and outsiders
 - Unequal distribution of gains and losses over time makes compromises more difficult
 - Problems of financing (temporary) public deficits due to the power of financial capital(ists)
- "It's better to be a dog in a peaceful time than be a man in a chaotic period" (寧為太平犬，不做亂世人)



Having tried both..



GDP growth rates, Denmark, 1949-2011

Source: Economic Council of the Labour Movement