



UPPSALA  
UNIVERSITET

VATT 30-year anniversary

# Employment and Policy in the Nordic Context

Oskar Nordström Skans  
Uppsala University

October 1, 2021



# Overview

1. To increase employment, *labor force participation* is key
  - Economic incentives are important
  - Four attributes: Old age, sickness, childbirth, and youth.
2. What about unemployment?
  - Most important margin for welfare!
  - More difficult, need a broader tool box (incentives, subsidized employment, employer contacts, wage structure, licensing barriers....)
3. What about the future?
  - Will AI change everything?

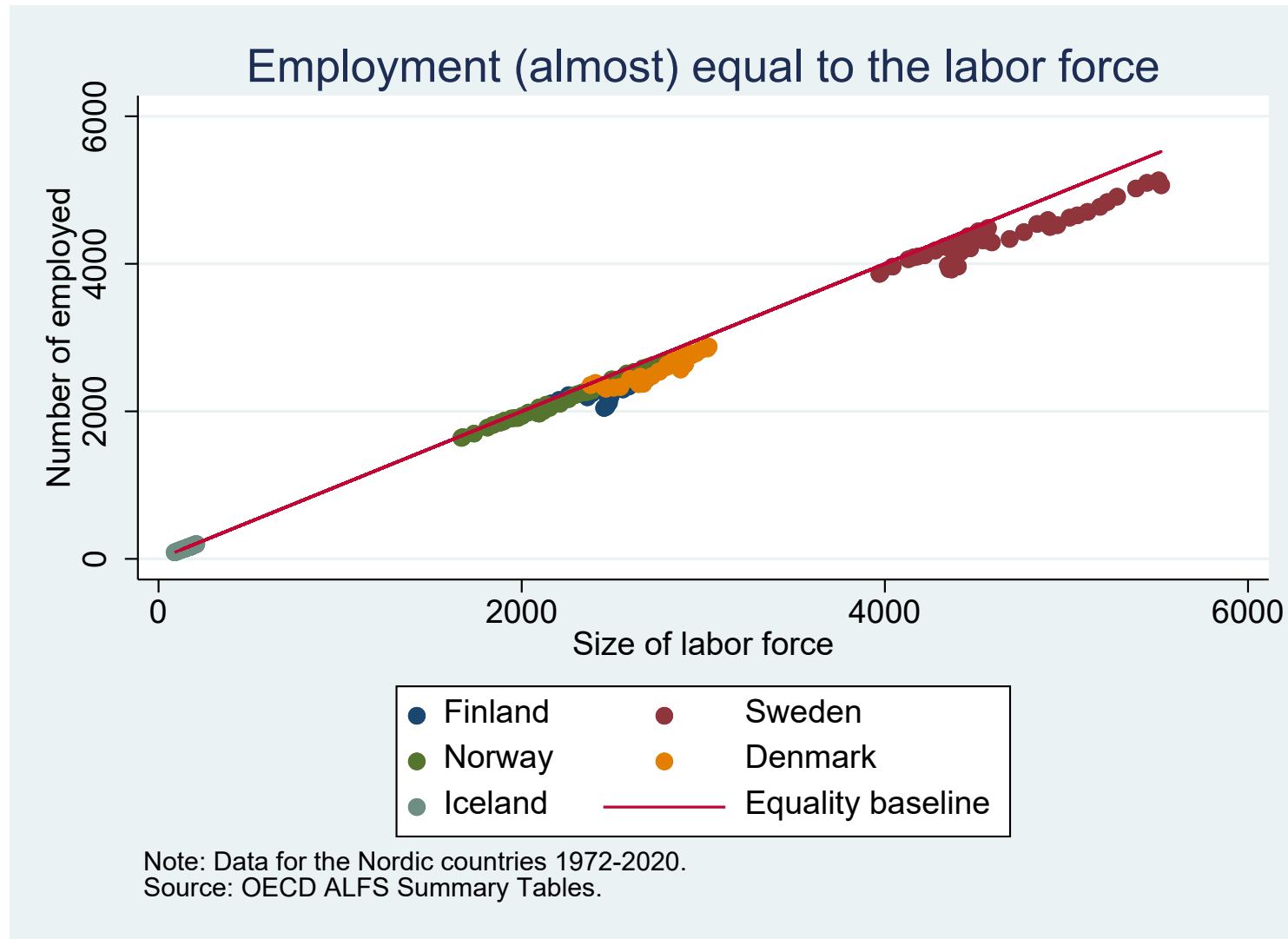
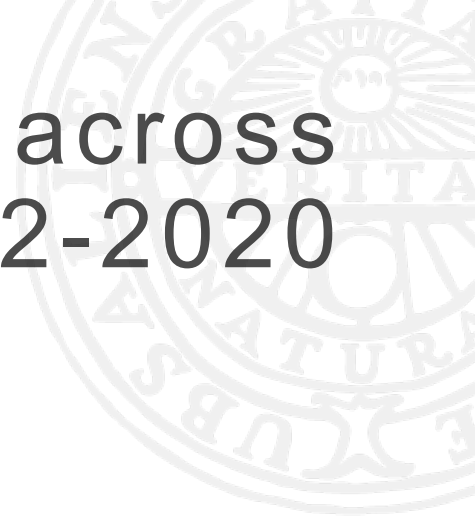


# Labor force participation drives employment

- 85 to 95 percent of the labor force is employed all the time

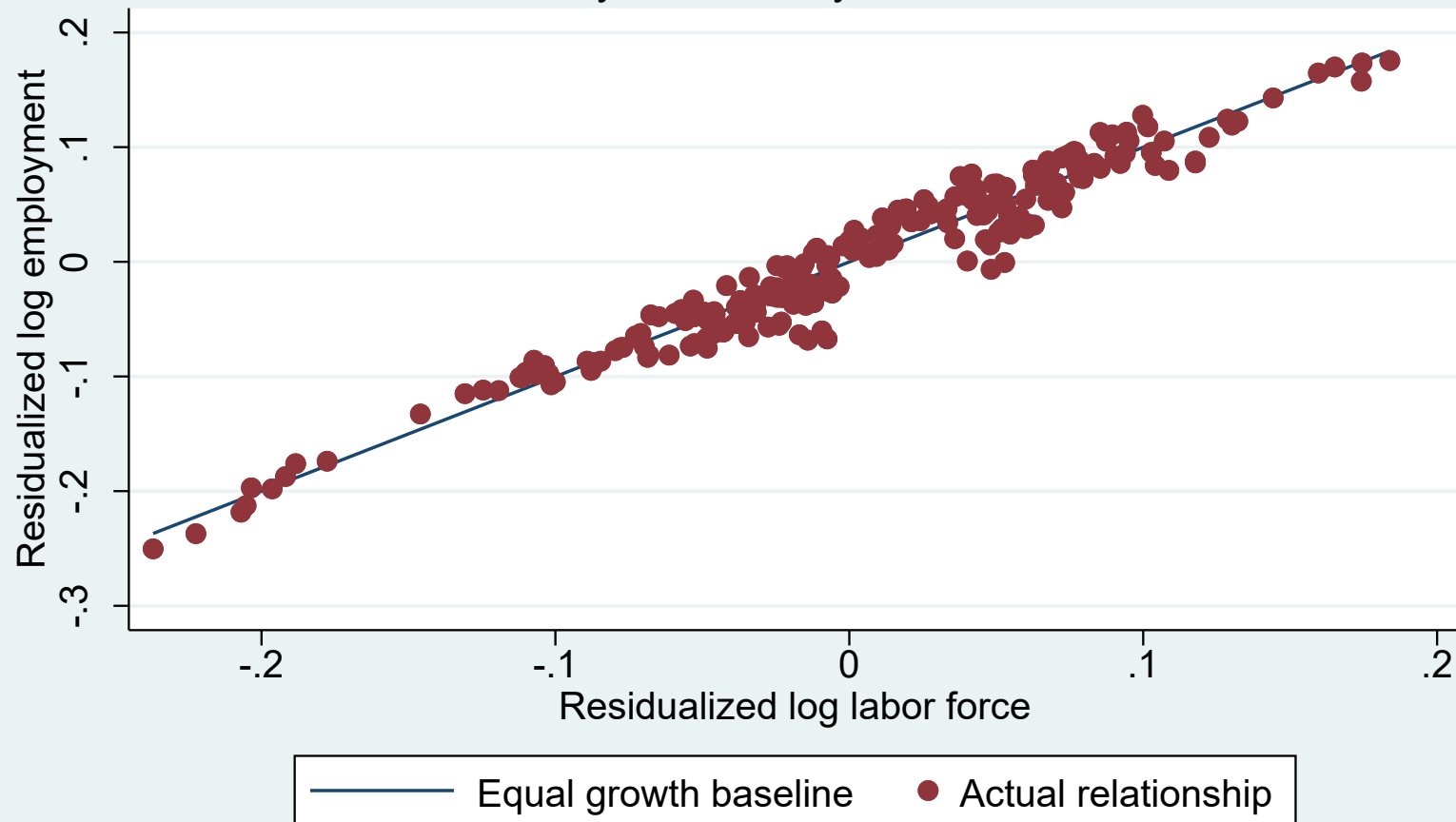


# Labor force and employment across Nordic countries 1972-2020



# Variation in labor force participation, explains 95 percent of variation in employment

Employment and labor force grows in tandem  
Fixed country levels and year effects removed



Note: Data for the Nordic countries 1972-2020.  
Source: OECD ALFS Summary Tables.

# Labor force participation drives employment

- 85 to 95 percent of the labor force is employed all the time
- Employment grows rapidly during (exogenous) periods of labor supply expansions
  - Female labor force participation, large youth cohorts, immigration,...
- Do expansions of labor supply lead to more unemployment?
  - Higher *count* of unemployed with more workers in the LF.
  - Higher unemployment *rate* if *composition* changes to low skilled workers
  - Falling demand for closest substitutes?
- But very unlikely that unemployment count grows as much as any increase in labor supply (i.e. employment will certainly grow with labor supply!)



# How can we increase participation?

1. Find the pockets of low participation
2. Figure out how to increase labor supply in those groups





# How can we increase participation?

1. Find the pockets of low participation
  - Older workers
  - Workers on early retirement/disability insurance
  - Women with small children
  - Labor market entrants
2. Figure out how to increase labor supply in those groups



# How can we increase participation?

1. Find the pockets of low participation
  - Older workers
  - Workers on early retirement/disability insurance
  - Women with small children
  - Labor market entrants
2. **Figure out how to increase labor supply in those groups**
  - Varies across the groups (but economic incentives often work)



# Some examples

- Reducing the tax wedge for older workers → increased employment [1]
- Minimize *inflow* into early retirement/disability insurance:
  - Avoid early retirement for labor market reasons [2]
  - Avoid early retirement for young workers [3]
- Parental leave benefits and child care
  - Child care cost subsidies serve as an “in-work tax credit”, but tax-transfer and leave-benefit design may be more important [4]
- Design study grants to favor fast transitions through higher education [5]



# Some examples

- Reducing the tax wedge for older workers → increased employment [1]
- Minimize *inflow* into early retirement/disability insurance:
  - Avoid early retirement for labor market reasons [2]
  - Avoid early retirement for young workers [3]
- Parental leave benefits and child care
  - Child care cost subsidies serve as an “in-work tax credit”, but tax-transfer and leave-benefit design may be more important [4]
- Design study grants to favor fast transitions through higher education [5]

[1] Laun (2017) “The effect of age-targeted tax credits on labor force participation of older workers” *Journal of Public Economics*

[2] Laun and Palme (2021), “Social Security Reforms and the Changing Retirement Behavior in Sweden”, NBER Working Paper No. 25394

[3] Halapuu (2021) “Upper Secondary Education: Access, Choices and Graduation” *Economic Studies* 198, Uppsala University.

[4] Liu and Skans (2011) “The Duration of Paid Parental Leave and Children's Scholastic Performance”, *The BE journal of Economic analysis and Policy* and Lundin et al (2008) “How far can reduced childcare prices push female labour supply?” *Labour Economics*. Bastani et al (2021) “The Anatomy of the Extensive Margin Labor Supply Response” *Scandinavian Journal of Economics*

[5] Gunnes et al (2013) “Financial incentives and study duration in higher education” *Labour Economics* and Holmlund et al (2008) “Mind the gap” *Oxford Economic Papers*



# But what about unemployment?

- Why do we want to increase employment?
  - Are all increases in employment of equal value to society?
- Unemployed workers *suffer through the want of work*
  - Welfare gains from increasing employment in those groups that want to work but cannot find employment is likely to be particularly pronounced.
- But increasing employment among the unemployed may be much harder
  - How do we find jobs for workers who appear to lack demanded skills?
  - Not enough to increase incentives
  - Fewer policy tools on the labor demand side (employers do whatever they want...)



# What can we do for the unemployed?\*

- Active labor market policies (reviewed in the other talk...)
  - Employment subsidies, active case-workers, activation schemes,...
  - Complement generous benefits with mandatory programs
- Employer contacts
  - In active labor market programs, in vocational education,...
  - Particularly important in bad times, for workers with poor formal skills
- “Sensible” collective agreements
  - High starting wages may not crowd out much employment, but alter the demand for labor away from the least skilled.
- Avoid employment barriers – “unbundle” jobs in sectors with work shortages

\*For references and further discussions see Skans et al (2017) *Åtgärder för en inkluderande arbetsmarknad* and Skans (2020), “En arbetsmarknad för ett starkare Sverige” in *Idéer för ett starkare Sverige*, Omstartskommissionen.



# But what about the future?

Will AI make work disappear?

I have no idea....

....but...

- the claim has been made before, without much validity
- no signs of labor market upheaval in the Nordics, despite rapid decline in technology-sensitive jobs.



# But what about the future?

Even though we managed past labor market transformations well, this did not happen without adjustments.

*The future will not fix itself – just as the past did not fix itself.*

Key questions:

1. What is “fashion”, and what are long term trends?
2. How will skill demand change?
3. How do we need to change institutions (taxes, collective agreements,...)







Thanks!





**Congratulations!**

