

Internationale Arbeitsmarktkonferenz

## **Wege zu mehr Beschäftigung**

International labour market conference

## **Ways and means of increasing employment**

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**Labour Market Flexibility and Social Security**



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# **Labour Market Flexibility and Social Security**

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- The interaction between the operation of the Social Security System and the efficient working of the labour market. I discuss:
  - (i) the way we expect things to work;
  - (ii) what we know about how things work;
  - (iii) policy recommendations.

How do we know if the labour market is working properly?

Broadly speaking, those who can reasonably be expected to work should be “working or be able to get work” without too much delay.

- This should lead to an overall unemployment rate not exceeding 6 per cent, preferably below 5 or even 4 per cent.
- Individuals should not be unemployed for more than a year.
- Employment rates for men between 25 and 54 should not be much below 90 per cent.
- Employment rates for men between 55 and 64 should not be too low (60 per cent?).
- What about women?

How do we expect things to work?

Broadly, the more the social security system encourages non-work relative to work, the more non-workers there will be. Thus:

- (i) More generous unemployment benefits will lead to higher unemployment both in absolute terms and relative to the number of vacancies.
- (ii) The longer the unemployed are eligible for generous benefits, the higher is long-term unemployment.
- (iii) The more subsidies there are to other forms of non-work (eg early retirement), the more non-employment there will be.

Equally as important as generosity is the way in which the social security system is operated. Key issues are:

- the resources devoted by the employment and related services to finding work for the unemployed and preparing the unemployed for work;
- the extent to which the unemployed are required to look for work and the sanctions imposed if individuals do not make themselves available for work;
- the extent to which the unemployed are moved into categories where they are not expected to seek work (eg disability or early retirement).

These are critical in the sense that a tougher system is expected to lead to lower unemployment and non-employment.

## What do we know about how things work?

### First, what has been happening?

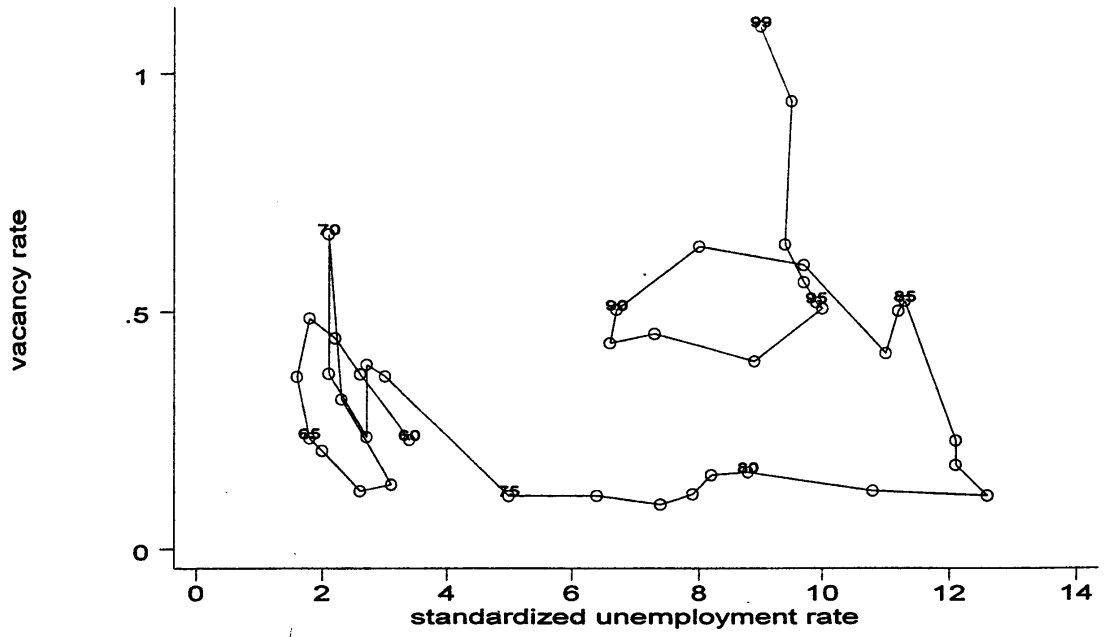
- (i) In all countries, unemployment rose from the 1960s to the early 1980s, sometimes substantially. These high levels have been sustained in some. In others fairly low levels have returned (eg Au, Dk, Ir, Nl, No, Po, Sz, UK, US).
- (ii) These patterns of unemployment reflect movements in the Beveridge Curve – ie the rises and subsequent falls have also happened at constant vacancies. So the unemployed became less good at filling vacancies either because they were less well suited (mismatch) or they had less of an incentive to do so (the benefit system more generous).

**TABLE 1**  
**Unemployment (Standardised Rate) %**

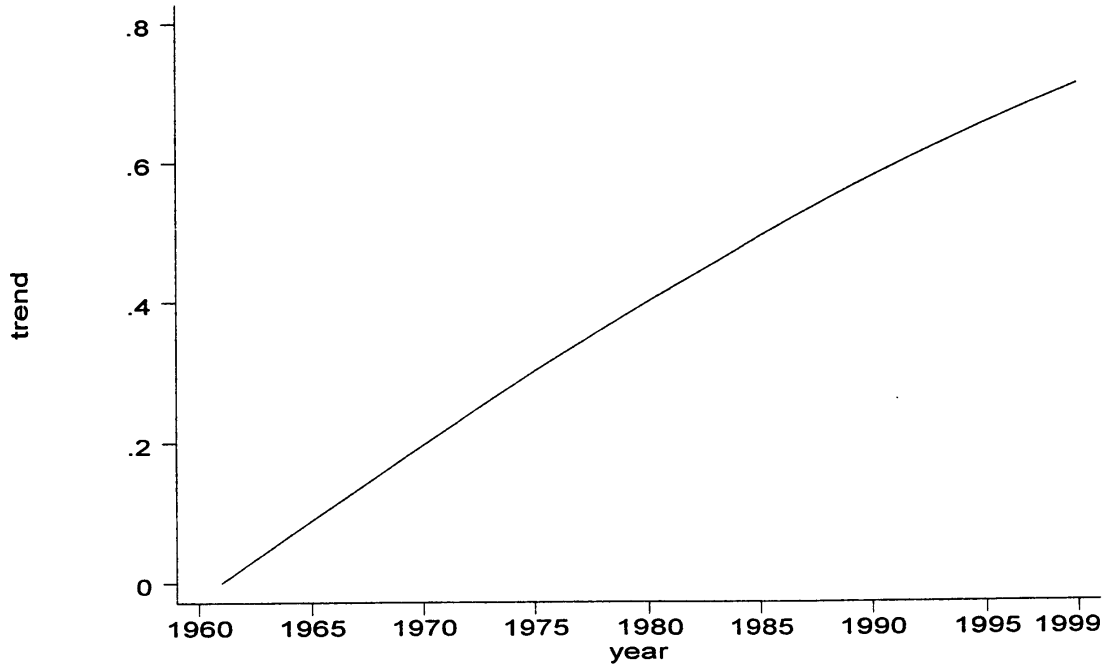
	1960-64	1965-72	1973-79	1980-87	1988-95	1996-99	2000 (spring)
Australia	2.5	1.9	4.6	7.7	8.7	8.1	6.8
Austria	1.6	1.4	1.4	3.1	3.6	4.5	3.5
Belgium	2.3	2.3	5.8	11.2	8.4	9.4	8.6
Canada	5.5	4.7	6.9	9.7	9.5	8.7	6.8
Denmark	2.2	1.7	4.1	7.0	8.1	5.5	4.8
Finland	1.4	2.4	4.1	5.1	9.9	12.2	10.4
France	1.5	2.3	4.3	8.9	10.5	11.9	10.4
Germany (W)	0.8	0.8	2.9	6.1	5.6	7.1	6.3
Ireland	5.1	5.3	7.3	13.8	14.7	8.9	5.1
Italy	3.5	4.2	4.5	6.7	8.1	10.0	9.6
Japan	1.4	1.3	1.8	2.5	2.5	3.9	4.9
Netherlands	0.9	1.7	4.7	10.0	7.2	4.7	2.8
Norway	2.2	1.7	1.8	2.4	5.2	3.9	3.7
New Zealand	0.0	0.3	0.7	4.7	8.1	6.9	-
Portugal	2.3	2.5	5.5	7.8	5.4	5.9	4.1
Spain	2.4	2.7	4.9	17.6	19.6	19.4	15.0
Sweden	1.2	1.6	1.6	2.3	5.1	8.7	6.5
Switzerland	0.2	0.0	0.8	1.8	2.8	3.7	3.1
UK	2.6	3.1	4.8	10.5	8.8	6.9	5.8
USA	5.5	4.3	6.4	7.6	6.1	4.8	4.0



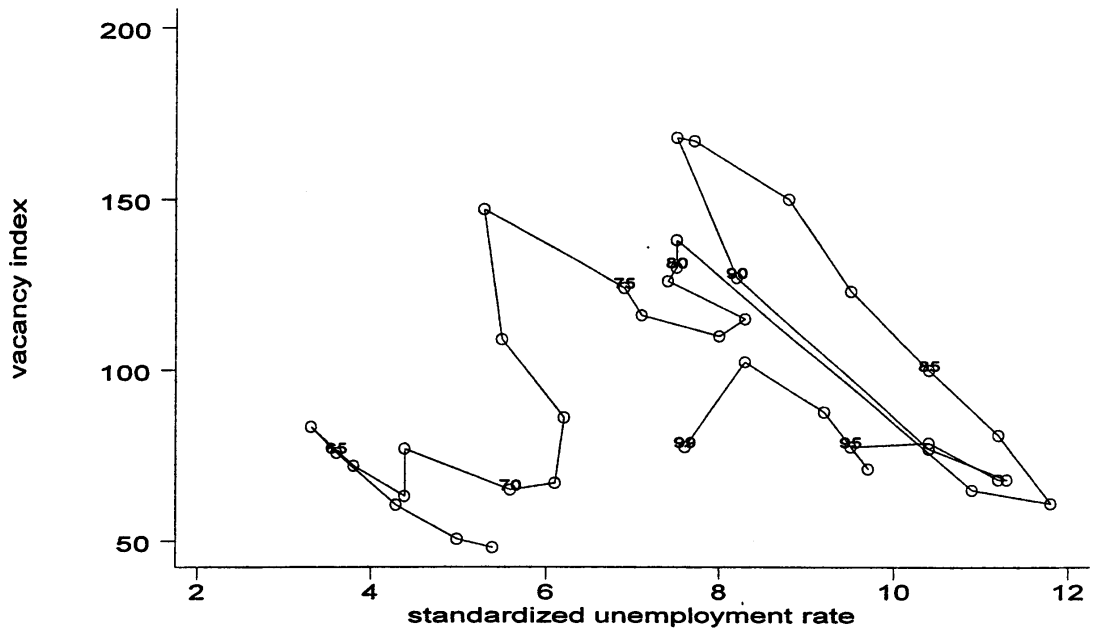
vacancy rates and unemployment rates for Belgium



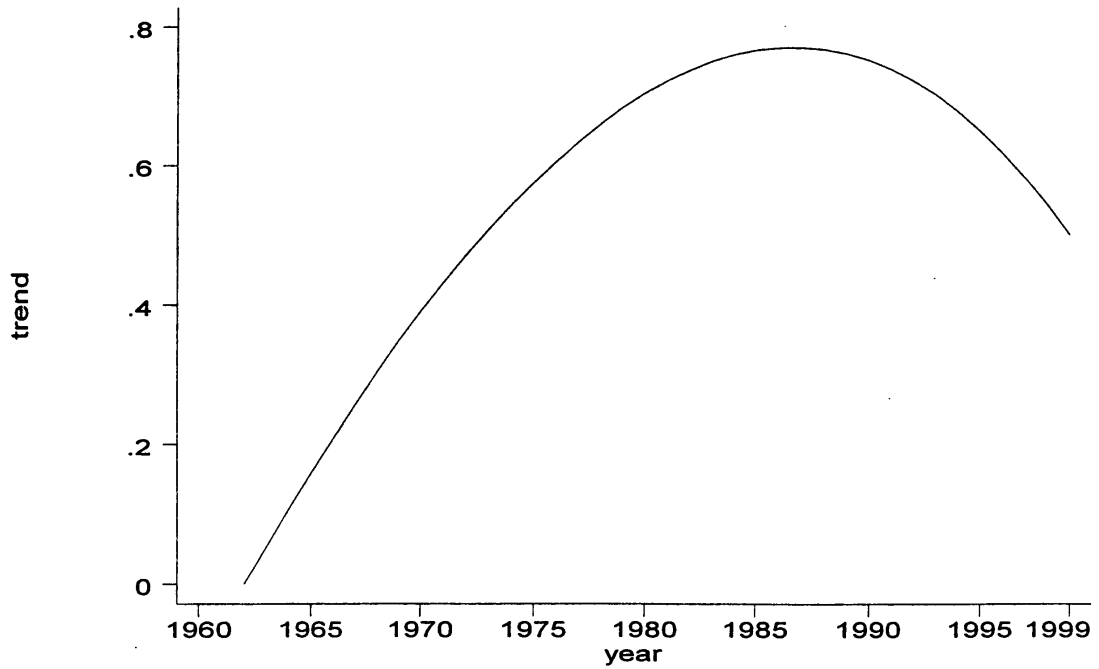
Trend for Belgium



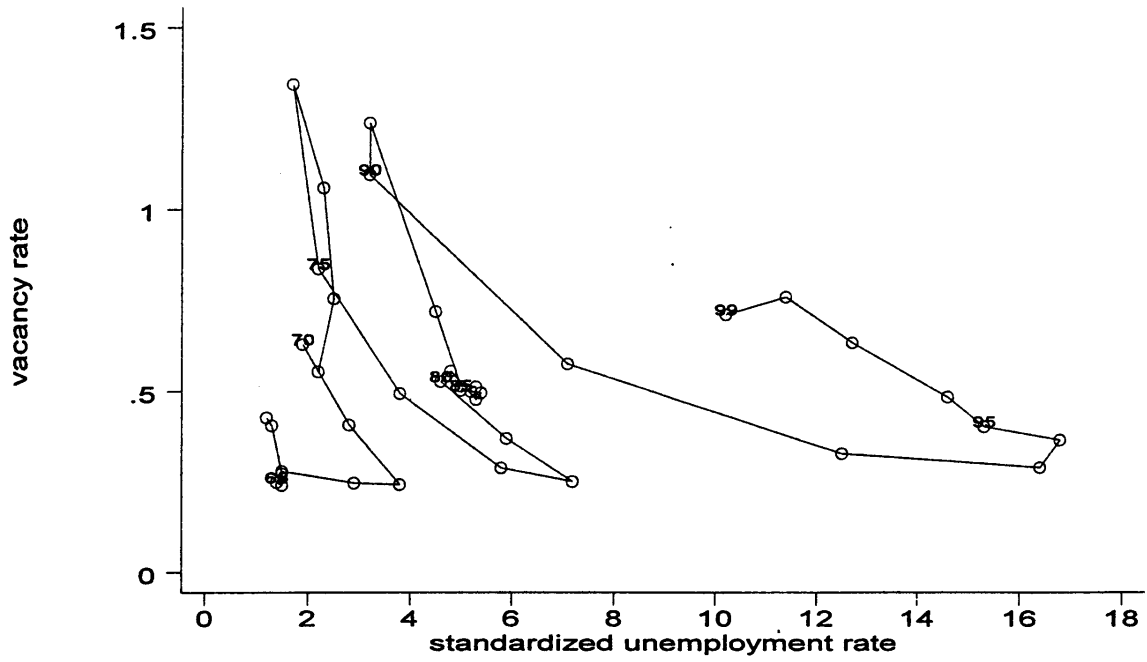
vacancy index and unemployment rates for Canada



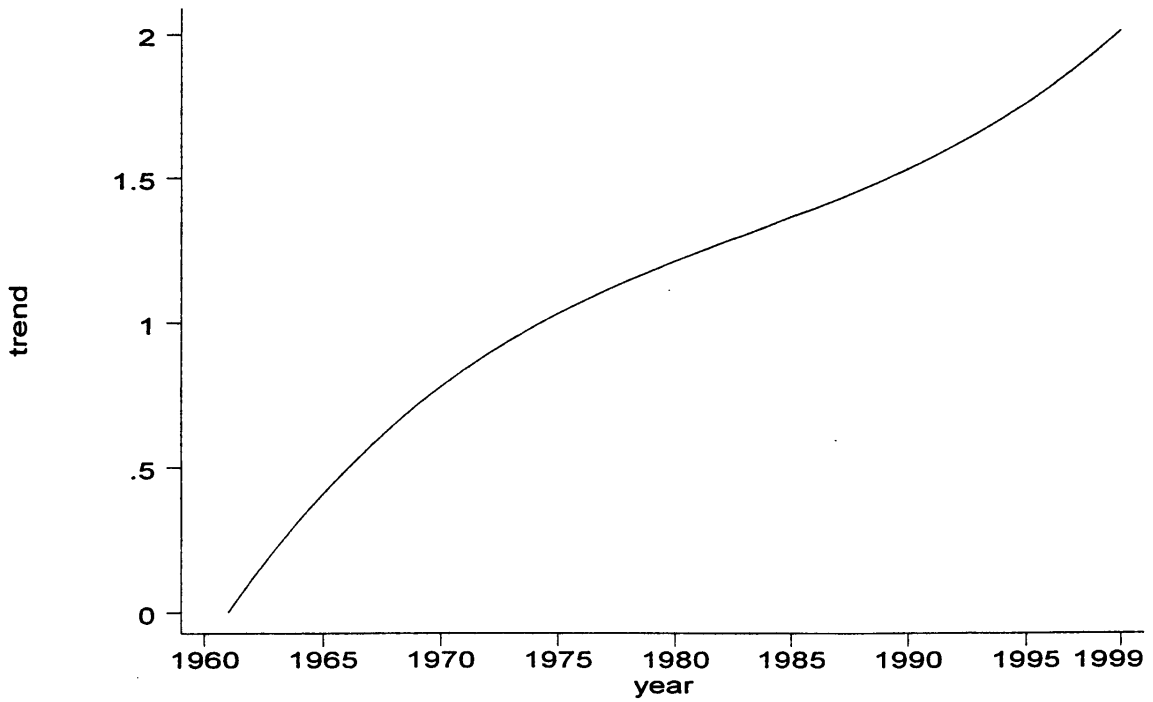
Trend for Canada



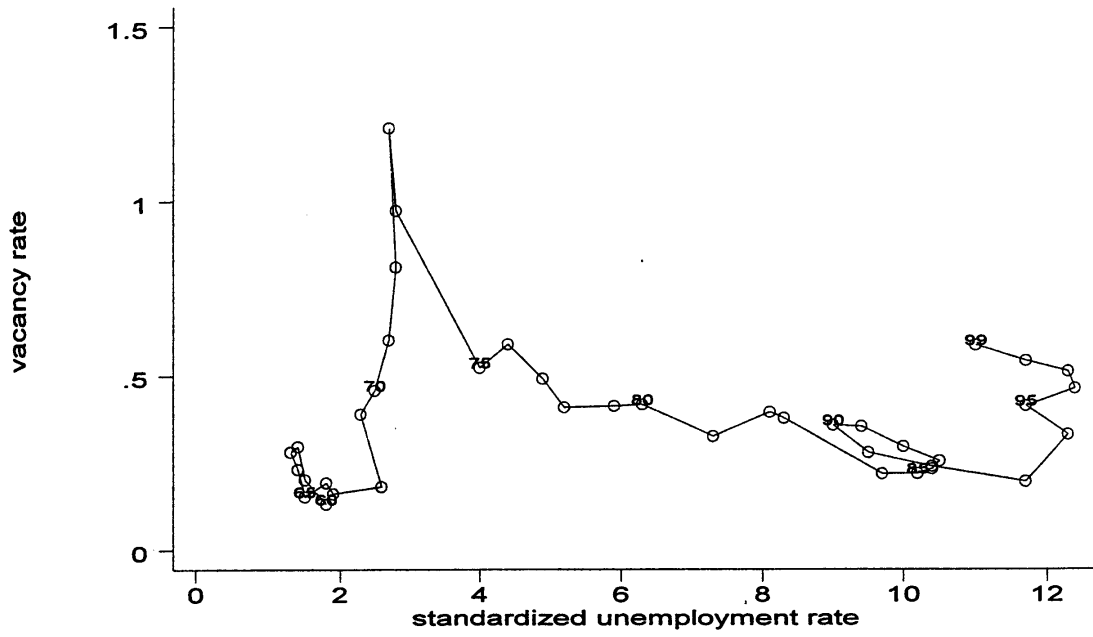
vacancy rates and unemployment rates for Finland



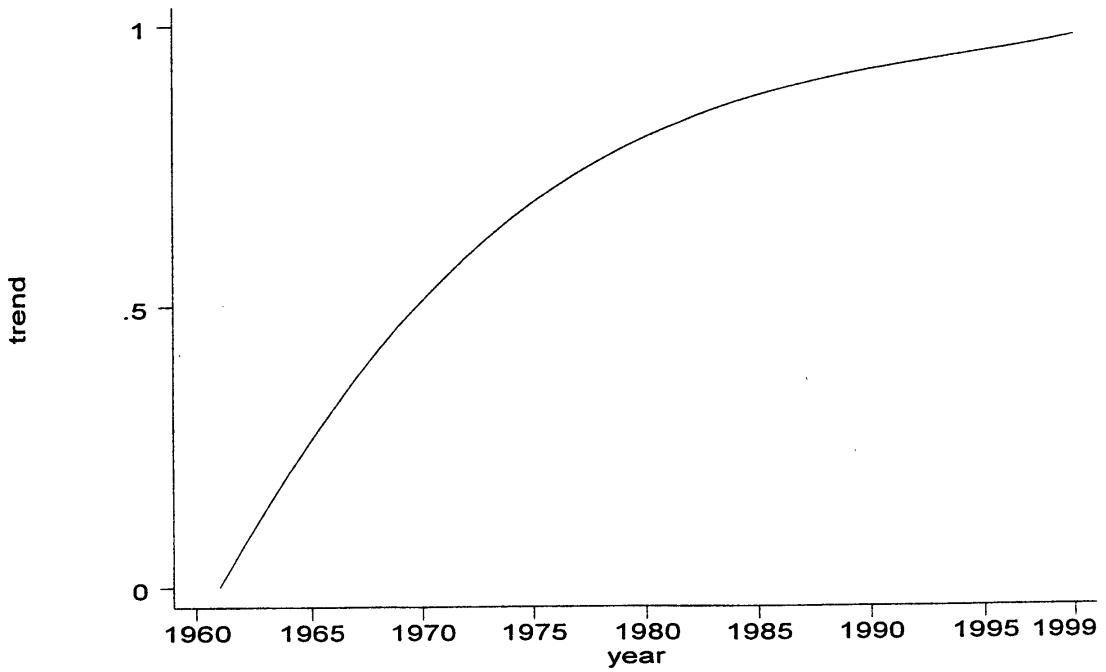
Trend for Finland



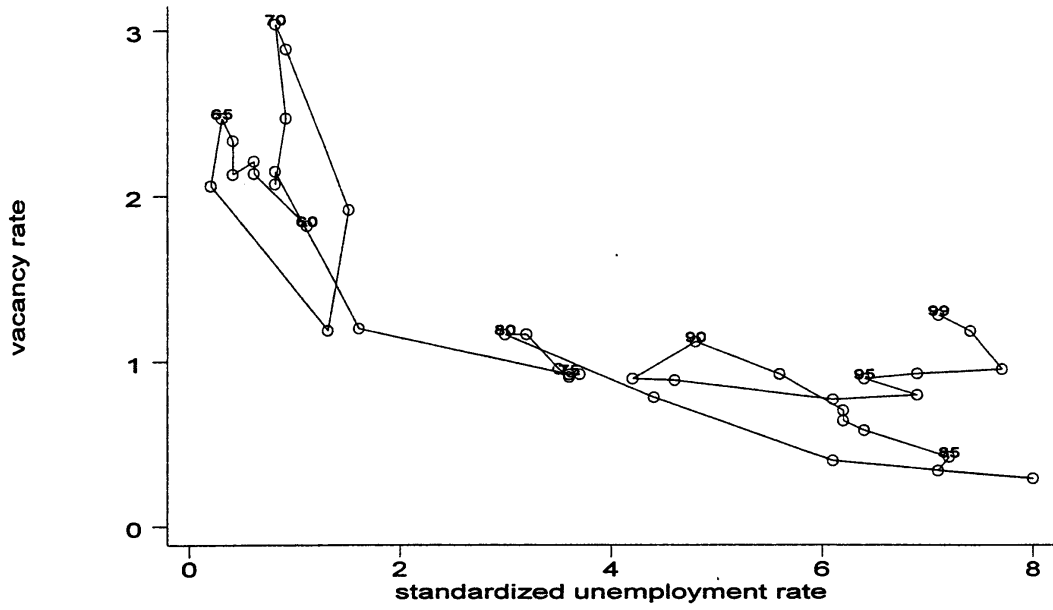
vacancy rates and unemployment rates for France



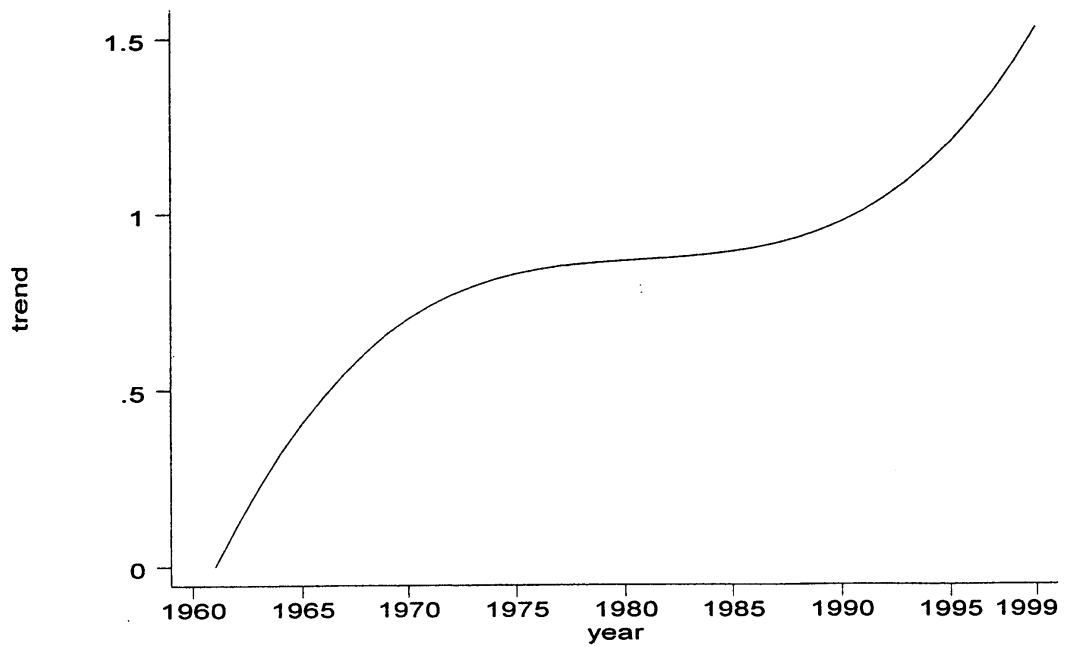
Trend for France



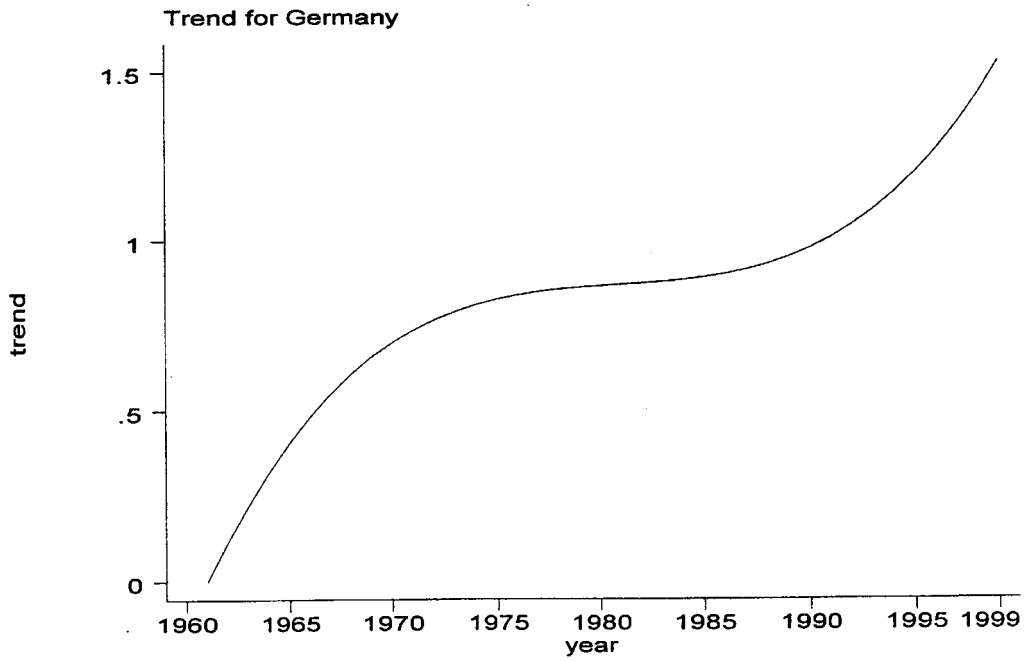
vacancy rates and unemployment rates for Germany



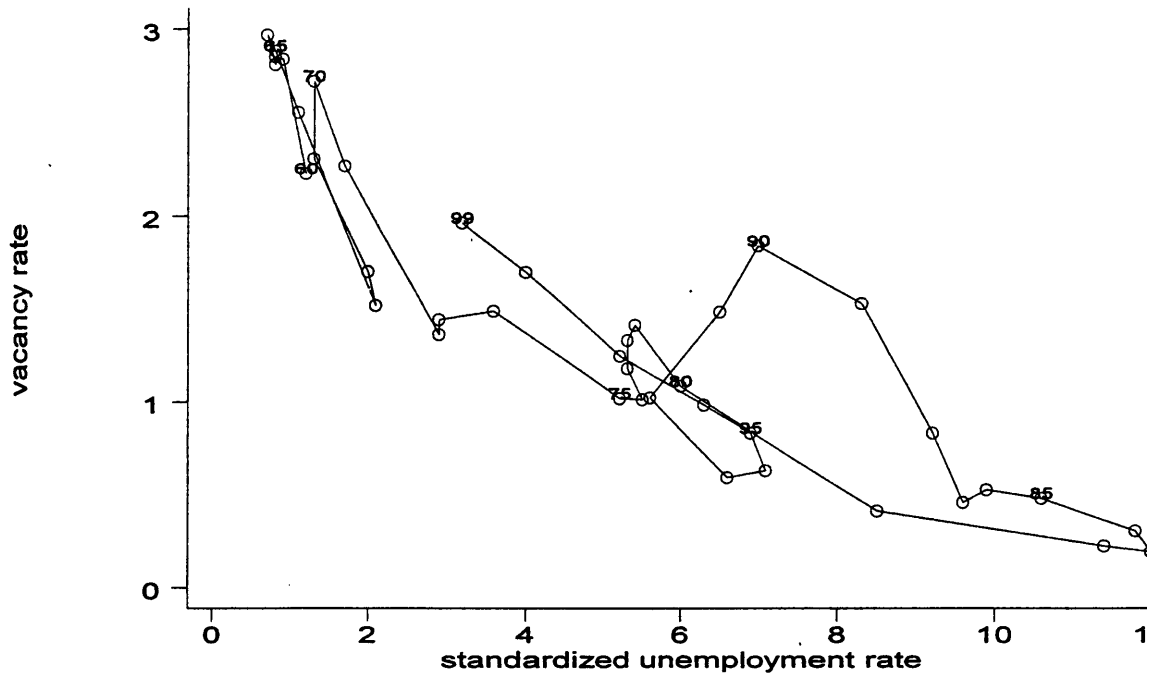
Trend for Germany



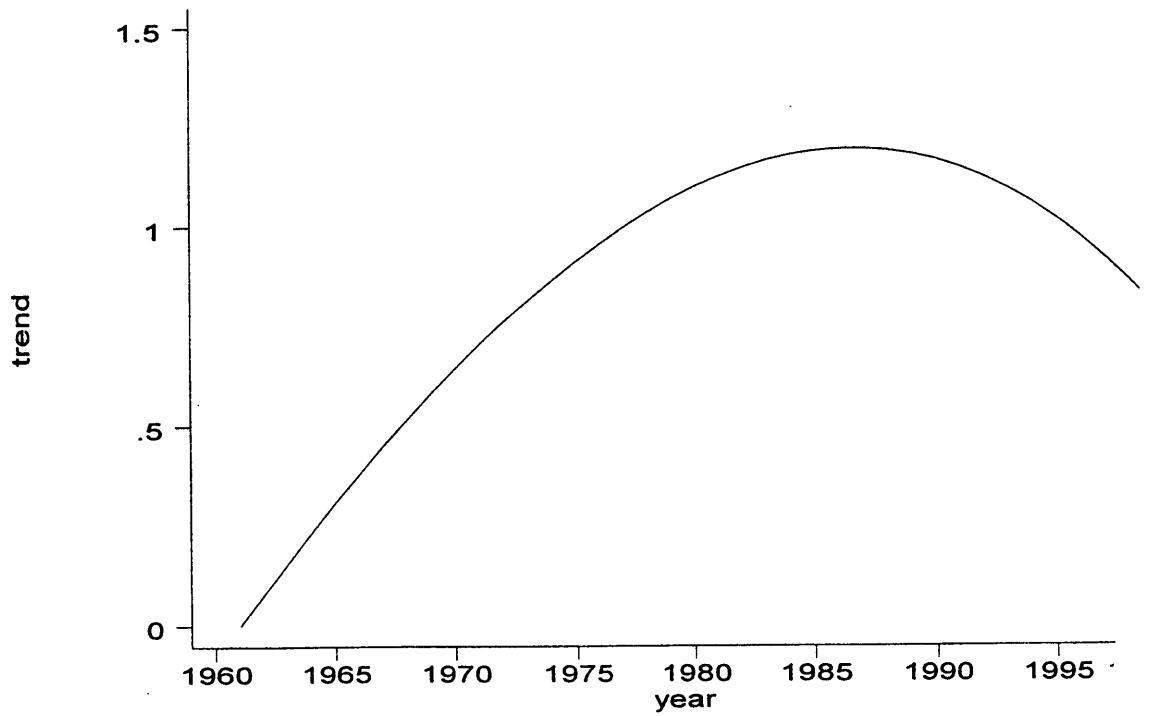
vacancy rates and unemployment rates for Germany: 74-99



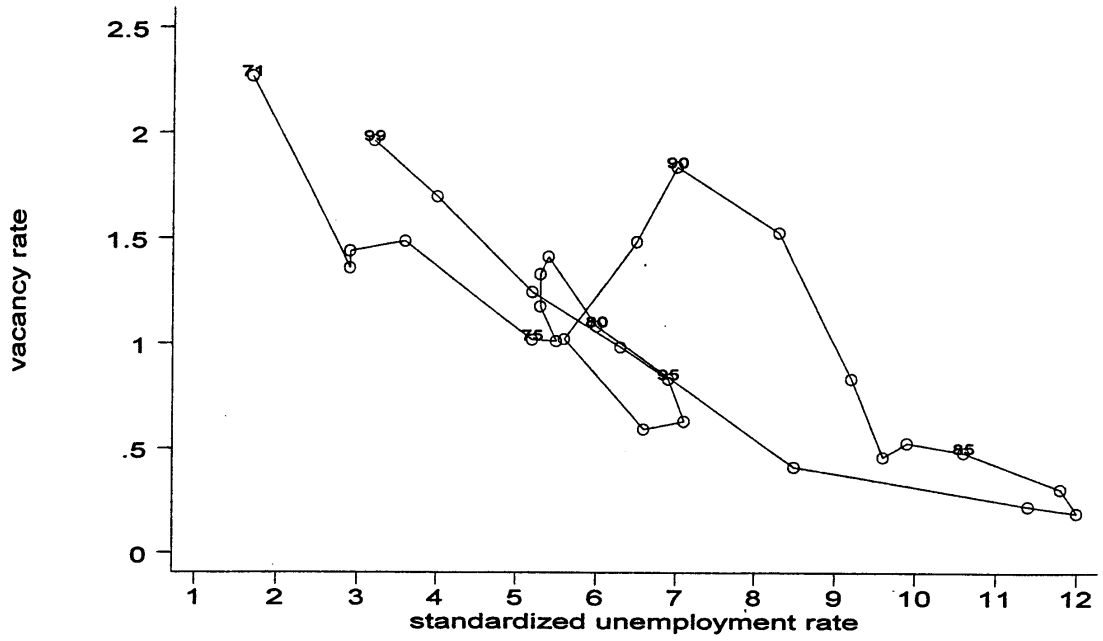
vacancy rates and unemployment rates for Netherlands



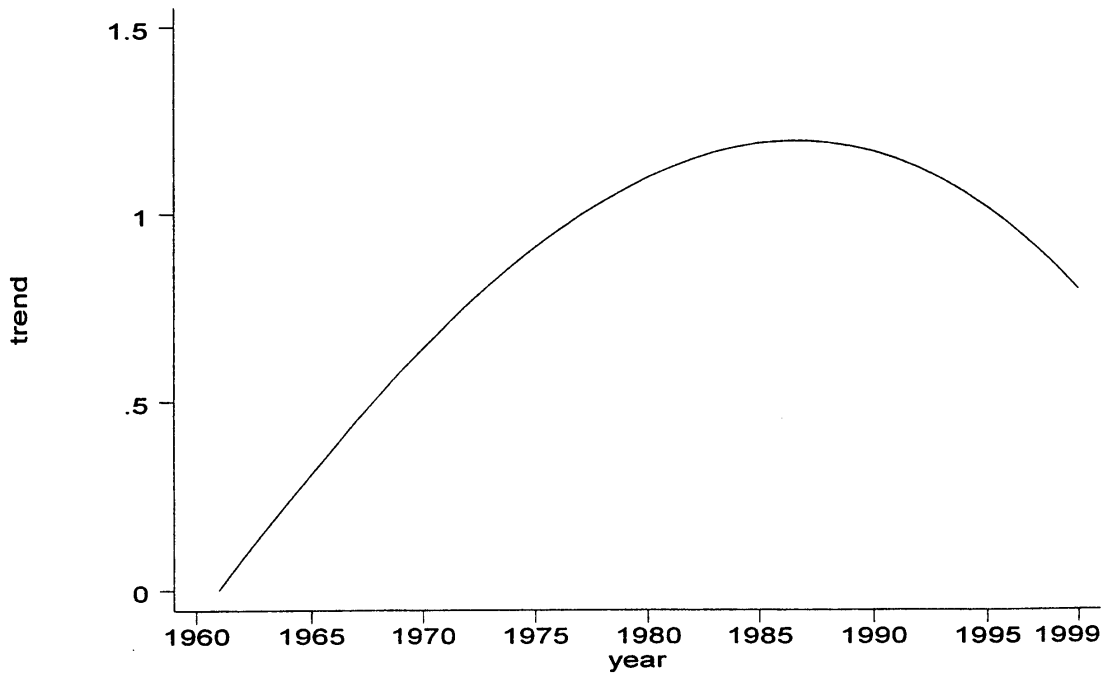
Trend for The Netherlands



vacancy rates and unemployment rates for the Netherlands: 71-99



Trend for The Netherlands

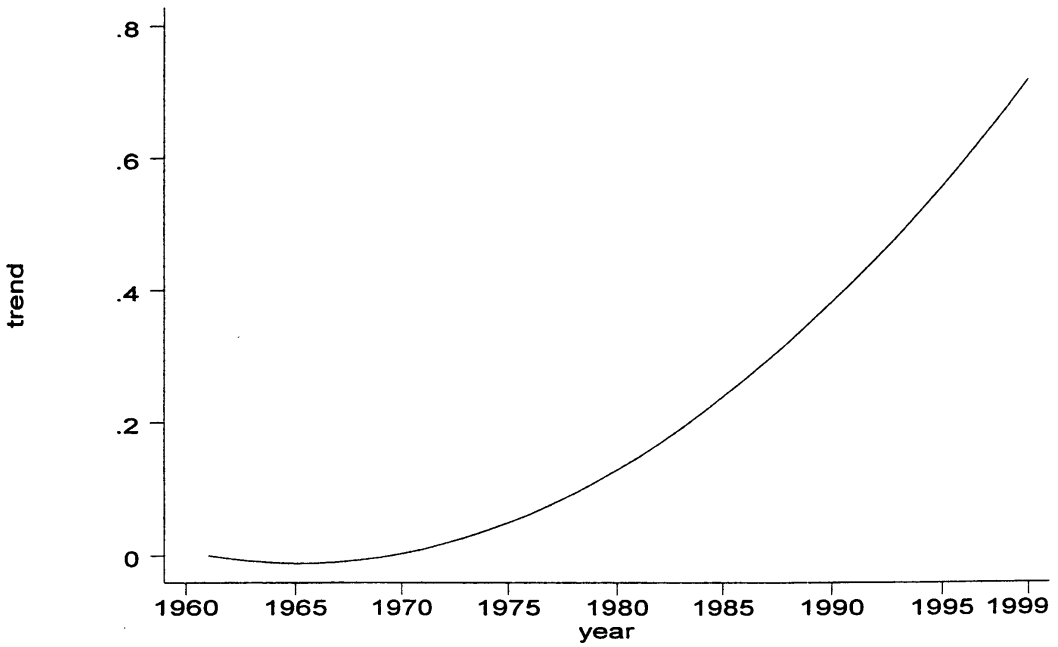




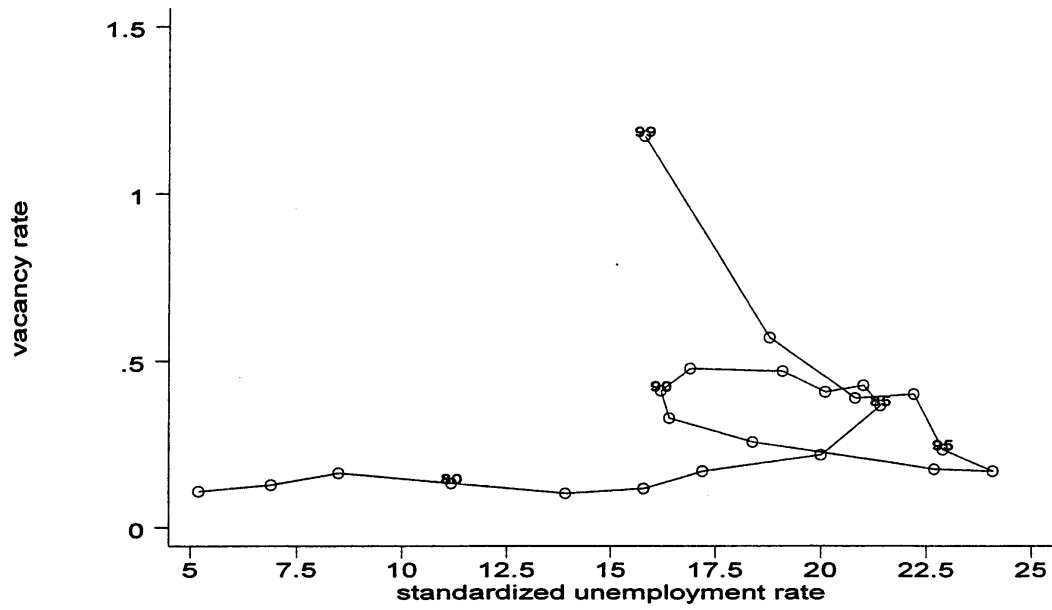
vacancy rates and unemployment rates for Norway



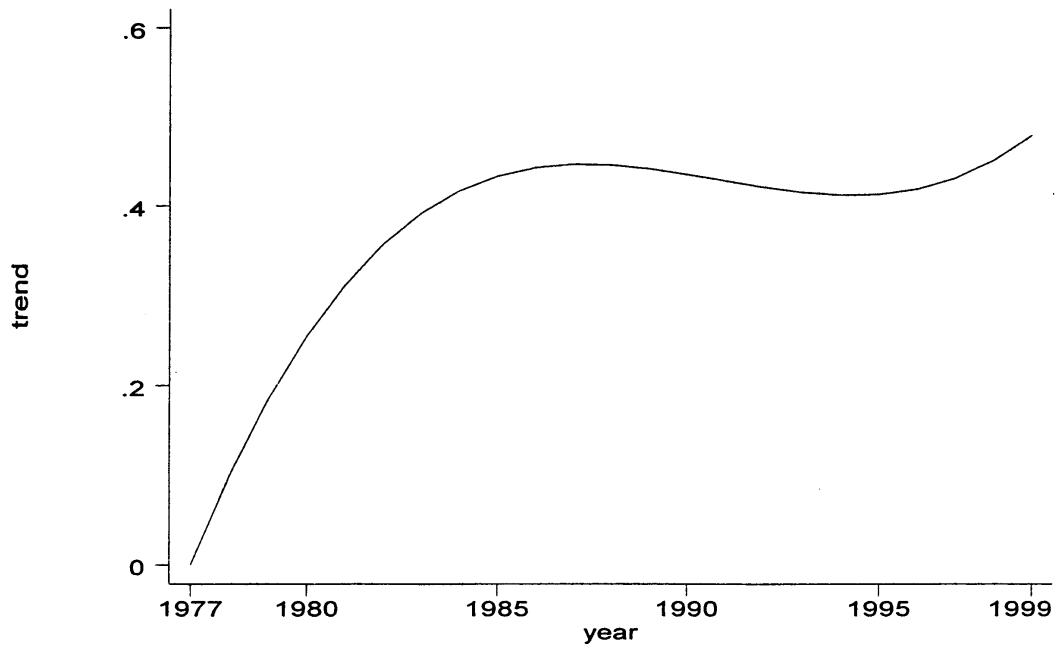
Trend for Norway



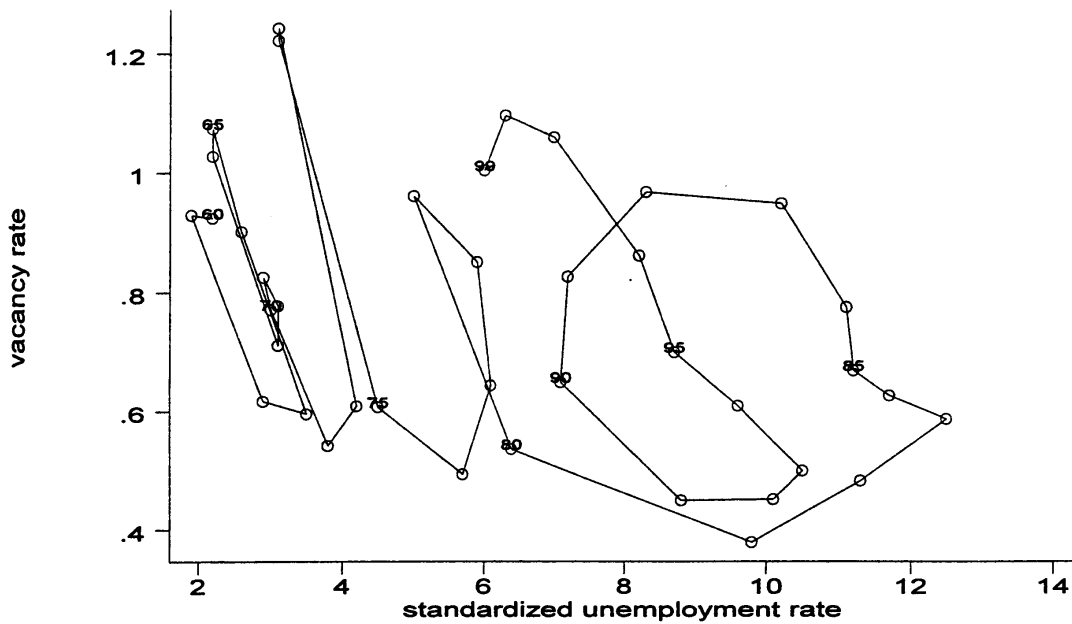
vacancy rates and unemployment rates for Spain



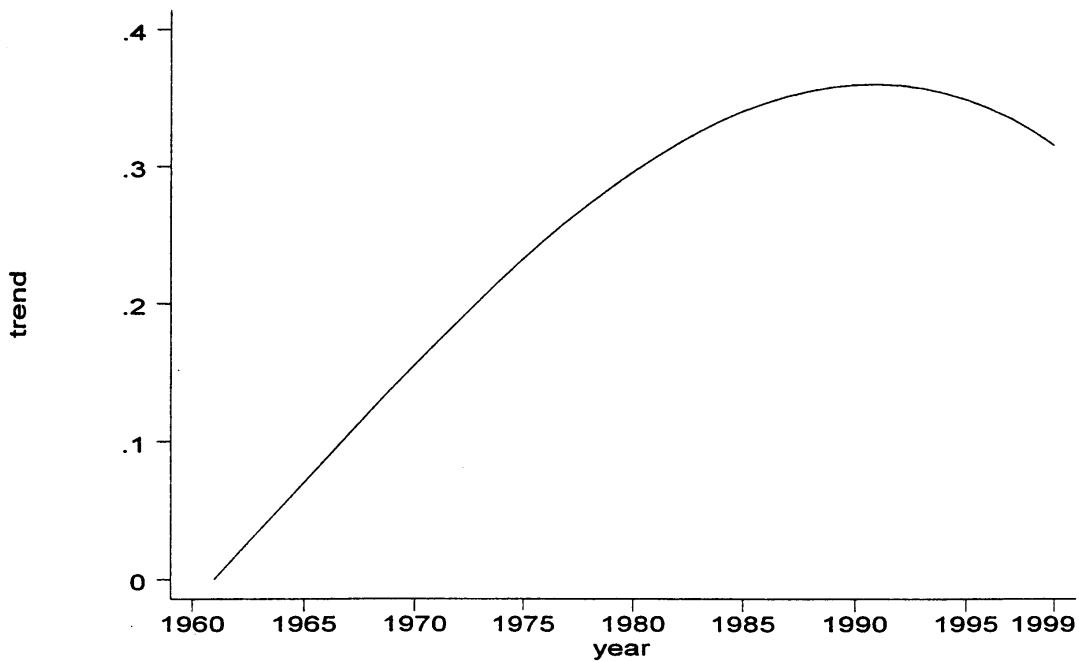
Trend for Spain



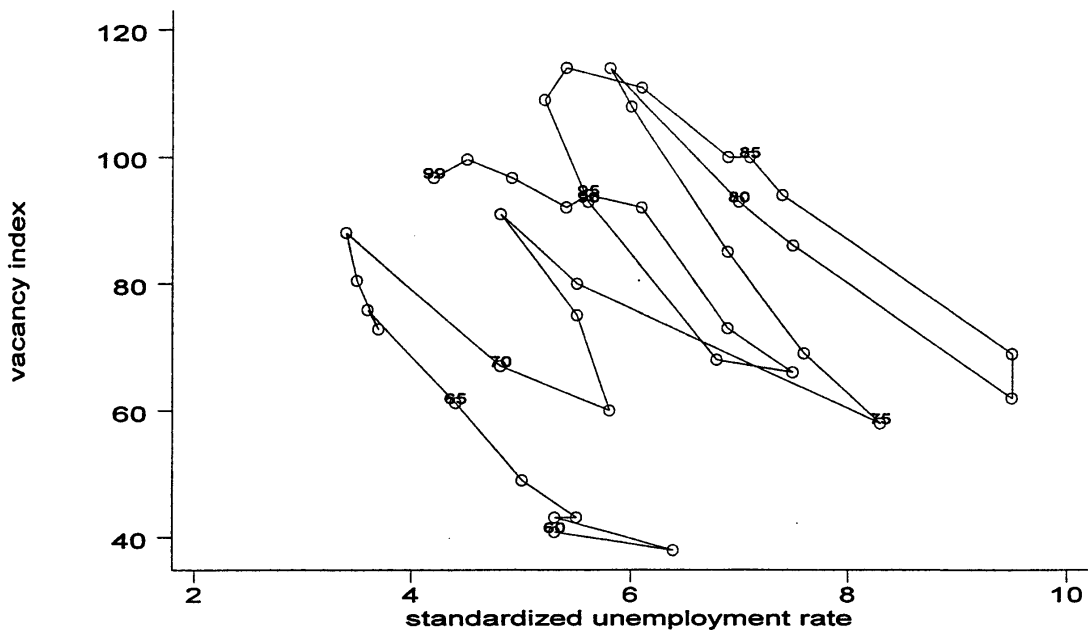
vacancy rates and unemployment rates for the United Kingdom



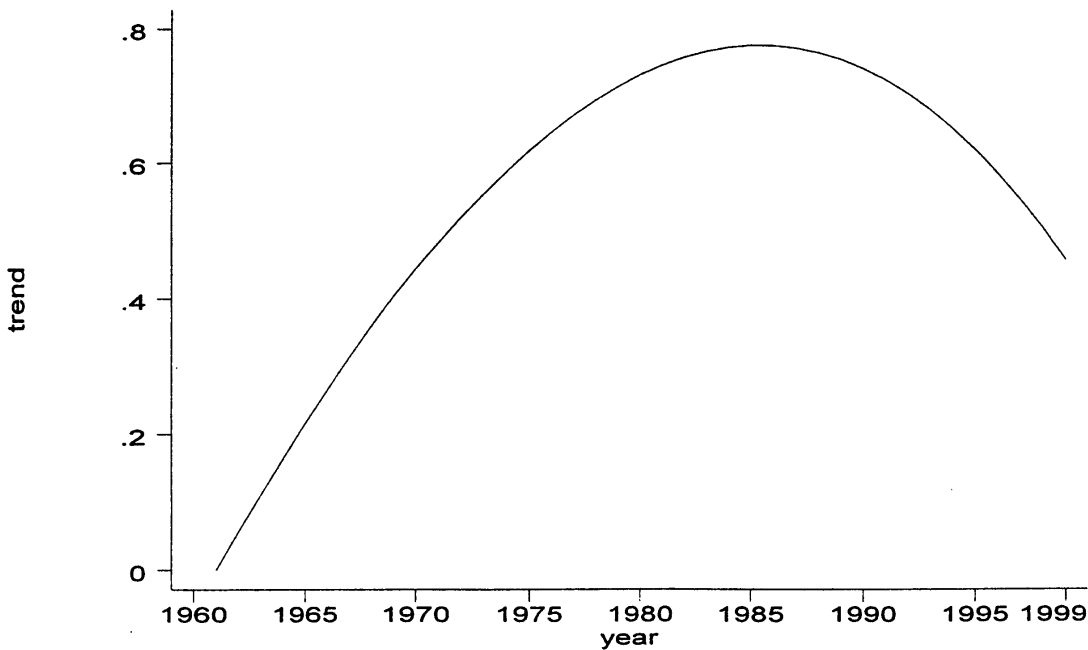
Trend for the United Kingdom



vacancy index and unemployment rates for the United States



Trend for the United States



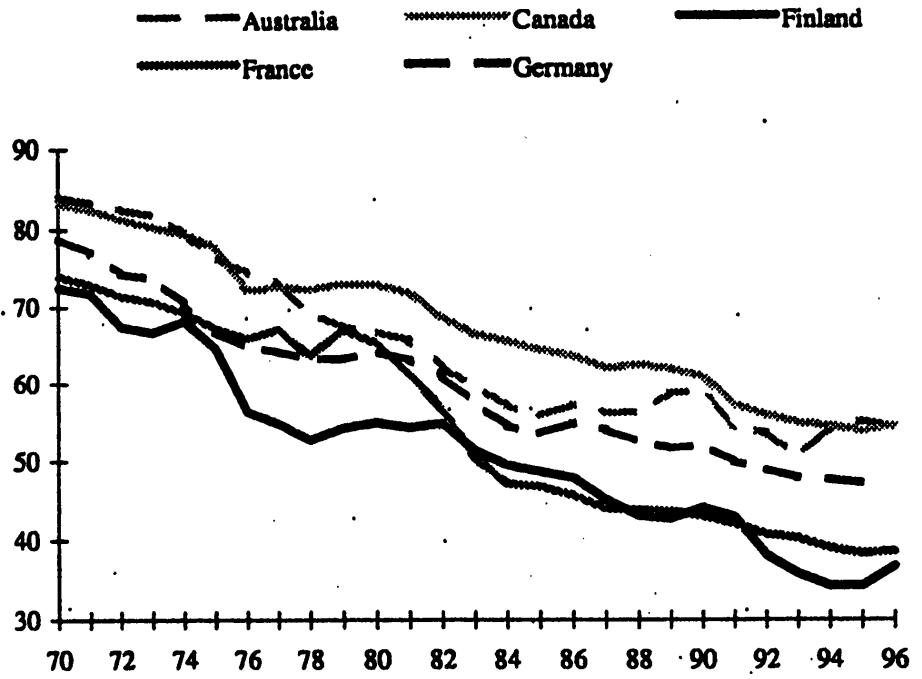
(iii) In all countries, there have been systematic declines in the participation and employment rates of older men.

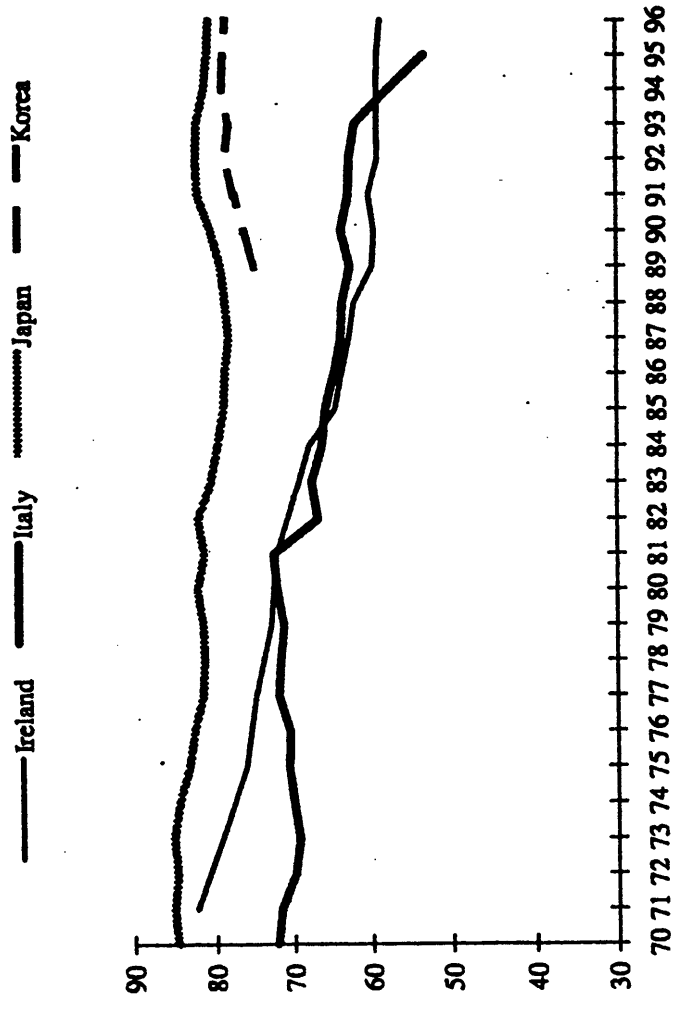
These falls are, in the main, due to government subsidised incentives, which were typically introduced to reduce unemployment in the 1970s and 1980s. This policy was a disastrous failure in the sense that they failed to reduce unemployment but they succeeded in reducing employment, output and overall economic well-being.

## **Participation Rates of Men Aged 55-64**

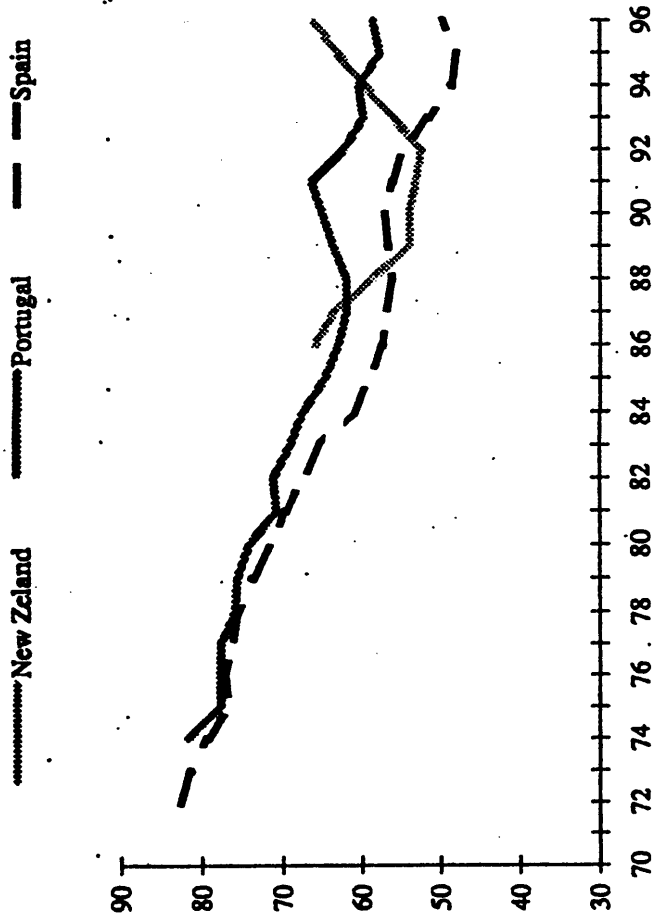
	1971	1995
Australia	84.4	60.9
Canada	83.3	58.9
Finland	73.2	46.0
France	74.6	41.5
West Germany	78.5	57.8
Ireland	91.0	63.9
Italy	59.3	44.1
Japan	87.1	84.8
Netherlands	80.6	42.3
Norway	83.3	72.3
Portugal	81.7	60.7
Spain	84.6	54.9
Sweden	84.7	70.4
United Kingdom	88.4	62.4
United States	82.1	66.0

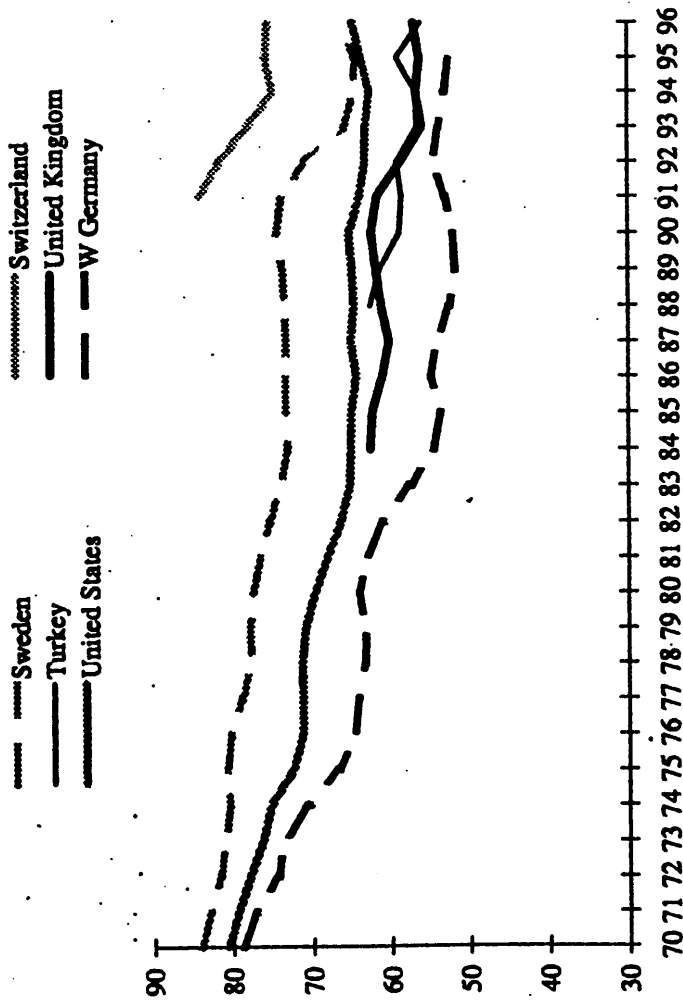
**Figure A.1 Older workers (55-64) as a percentage of older population (55-64)  
Men**







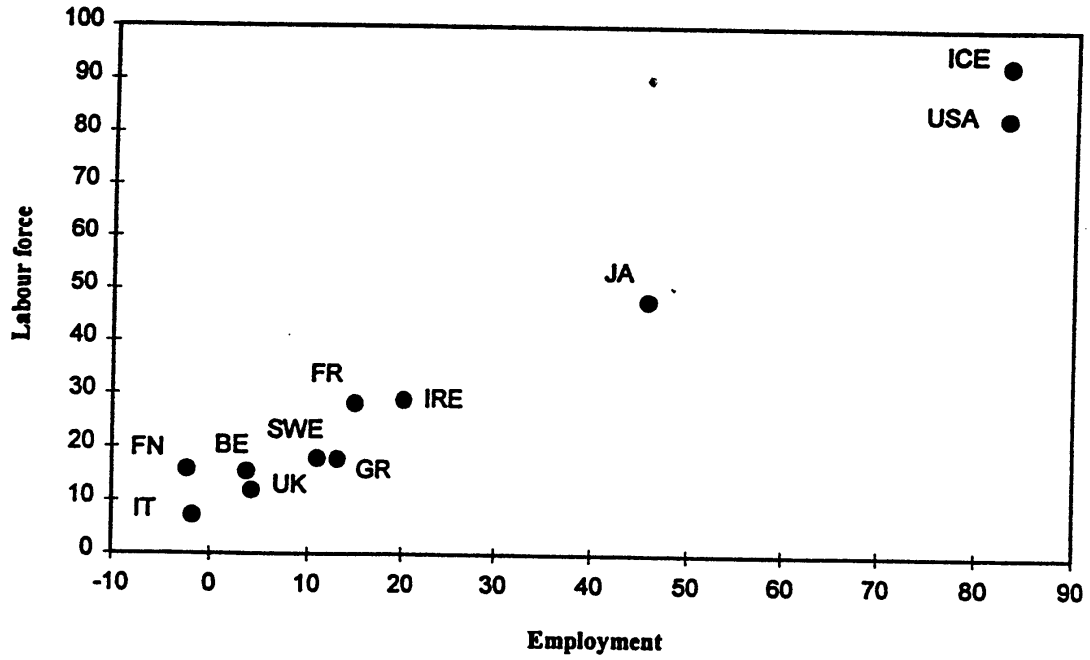




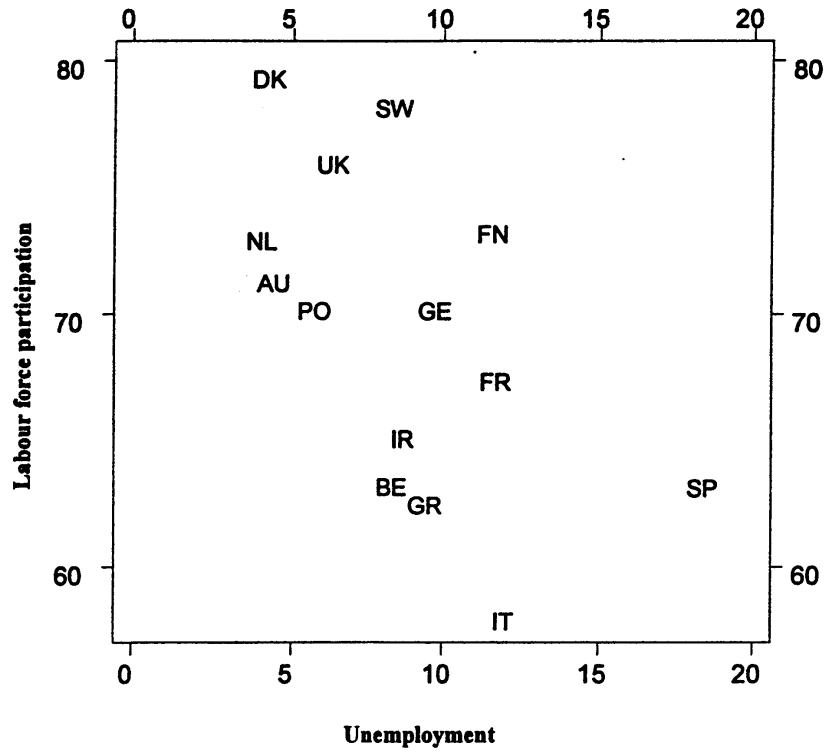
## Digression

Contrary to popular belief, reducing labour supply is not, in the medium or long term, an effective method of reducing unemployment. In fact, it simply reduces employment. Conversely, increasing labour supply tends to increase employment, not unemployment.

**Figure 1**  
**Percentage growth in the labour force and employment 1960 - 1995**



**Figure 2**  
**Labour-force participation rate (15-64) and unemployment rate, 1998 (%)**



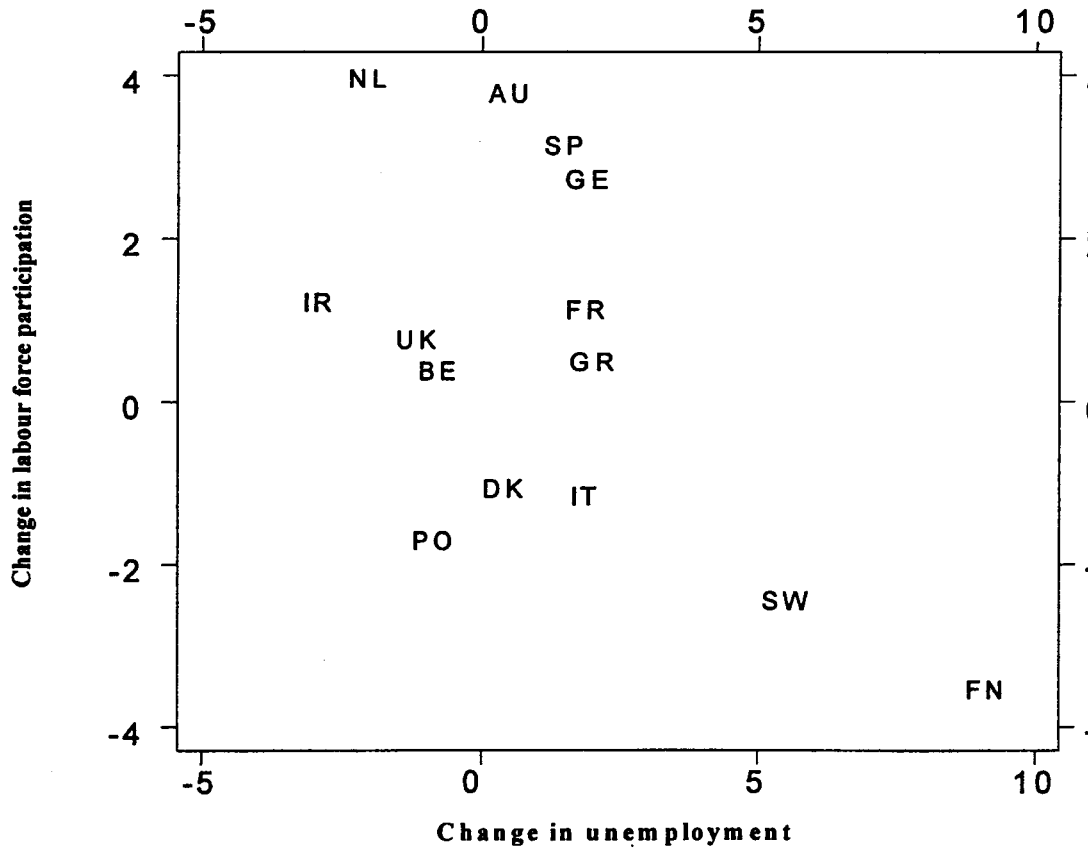
- (iv) Large amounts of evidence suggests that more generous benefits are associated with higher levels of unemployment. Further, longer durations of benefit eligibility are associated with higher levels of long-term unemployment.
- (v) Some evidence suggests that the way the benefit system is administered has a significant impact on unemployment, and can offset benefit generosity.

Key factors are:

- The range of vacancies which individuals must accept (eg the occupation level, travel to work time, the enforcement of the rules, the level of sanctions).
- The efficiency with which vacancies are brought to the attention of the unemployed (eg the effectiveness of the employment service, the effectiveness of private agencies).

**Figure 3**

**Change in labour force participation rate (15-64) and change in unemployment rate. 1990s compared with 1980s (% points)**



### Policy Conclusions

- For individuals of working age who are capable of work, the right to benefits must be matched by an obligation to find a job, if jobs exist. Experience shows that unemployed people are more available to fill employers' vacancies if:

(v) benefits are paid through the same office as that where people are placed in work;

(vi) unemployed people must attend regularly in person;

(vii) unemployed people are expected, after a period, to be available for most types of work, even if this involves substantial journey times.

A modern Public Employment Service is a key instrument in the business of channelling job offers to workers. It should be properly staffed and funded, with private agencies free to compete with it.



- Every effort should be made to prevent long-term unemployment. There should be active policies to ensure that everyone gets offers of work or training within a year of entering unemployment. The work should, where possible, be with regular employers, and secured if necessary by a recruitment subsidy.

[In-work benefits can help here.]

- Labour supply reducing policies, such as subsidised early retirement, should be phased out. Reforms of pension systems should remove from public pension arrangements those features which discourage the participation of older workers.