

Train for Work

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Axess, Vol. 13, No. 1, 2014, <https://www.axess.se/artiklar/train-for-work/>



No concept has been more significant than ‘social exclusion’ over the last ten years of political debate. Over the decade before that, it was ‘health-schools- social care’ at the centre

during several election campaigns. An adequate proportion of voters could be intimidated from voting bourgeois with the argument that "the bourgeoisie would dismantle welfare" if they came to power. Social exclusion became the battering ram that broke the social democratic power hegemony and paved the way for the new Moderates, led by the duo of Reinfeldt and Borg. This would hardly have succeeded if there were no substance behind the concept. The statistics showed that social exclusion, conservatively estimated, included nearly one million people and, with a broader definition, could total over a million and a half.

It is winter 2013/14, and it looks as if even the autumn elections will revolve around employment and exclusion. The side that is perceived to have the most credible job policy is likely to win.

But how will it look in 20 years? Will the election in 2034 also be about jobs and social exclusion? Or will the issue be solved by the inverted population pyramid making the shortage of labour the most pressing problem?

Apparently, it is possible that, as the Alliance argues, hundreds of thousands of people have moved from welfare to work. But one can also argue that exclusion is as great today as when the Alliance took over. Almost exactly 1.1 million people stood outside the labour force in both 2006 and 2013. This is not as strange as you might think. Sweden has experienced exceptionally rapid population growth. Since 2002, the population has increased by over 700,000 in the form of a birth surplus of 200,000 and a net immigration of over half a million.

The Alliance's achievement is the following: despite a strong increase in the working age population, employment has kept pace with population growth. The proportion of those employed as a percentage of the total population (45.7 percent) has remained at the same level in 2013 as in 2006. The percentage of employed 20–64-year-olds has even risen slightly and is now above 80 percent. Neither has employment been sustained by more people working part-time: the number of hours worked per person of working age remains unchanged at 1,050 hours per year – this, despite a global financial crisis that hit Europe particularly hard and despite extensive low-skilled immigration.

In the U.S., the picture is quite different. The population has continued to rise at about the same rate as in Sweden. But the number of jobs fell during the 2000s, while the increase was between 20 and 30 percent per decade in the second half of the 1900s.

The employment rate in the United States today is six percentage points lower than in 1999. Erik Brynjolfsson and Andrew McAfee note in the book, *Race Against the Machine*, that it would require 18 million (!) new jobs for the U.S. to get back to the level at the turn of the millennium. Sweden and the United States are now equal in terms of the average number of hours worked per person, while the U.S. was way ahead of Sweden 15-20 years ago. For more than 20 years, scientists have raised the alarm about the problem of an aging population. Disaster scenarios have been painted that warned of a critical shortage of manpower and the necessary shock increases in local taxation measured in tens of percentage points just to meet care needs. But yet, this disaster has not occurred. The tax burden has instead been reduced since 1990 by about 10 percentage points as a share of GDP, even though employment is still lower than it was then. How is that possible?

The main reason is simple: the proportion of the population of working age began to increase, not reduce, after 1990. It is only in 2015 that the proportion is expected to be back at 1990

levels. According to SCB's long-term forecast, the share of working age population (20-64 years) will only fall by four percentage points (from 58 to 54 percent) by 2030 and then stabilise. The aging of the population is therefore not a major problem in itself, it is enough that the retirement age will be raised, or that young people establish themselves in the labour market at the age of 27 instead of the current 29, to compensate for this small increase. It found no "meat mountain" à la Pär Nuder or need to work until we are 75 as Fredrik Reinfeldt stated in spring 2013. At the same time, it is undeniable that major problems will become clear in the future and demand a solution. Those who have migrated in recent years have found it very difficult to enter the labour market. The employment rate among non-European immigrants is more than 30 percentage points lower than among natives and has not increased since 2006. It looks like that this immigration will continue at a sustained or even accelerated rate over a number of years.

Youth unemployment is very high and the age at which young Swedish people establish themselves in the labour market is exceptionally high. The Swedish education system suffers from serious shortcomings, which manifest both in the high percentage that leave primary and secondary education without passing grades in core subjects and in the highly degraded performance relative to other countries by international comparison.

This was, during the 2000s, compensated by several factors: the actual retirement age has risen by almost four years since the late 1990s. The benefit levels for unemployment insurance, social assistance, sickness benefits, early retirement and regular pensions have been frozen or lowered relative to the corresponding wages. At the same time, it has become difficult to even obtain assistance. That it has become more costly to stand outside has been reinforced by the earned income tax credit. Overall, this has meant an increased labour supply in groups with work capacity. Twenty years of high growth, exceptional real salary increases among white-collar workers and lower taxes on services (rut, root, reduced restaurant VAT) has paved the way for rapid growth in the service sector.

The effects of these 'low-hanging fruit' have now largely been recovered. Any further increase in the retirement age will be harder to accomplish and further deterioration in social security systems are unlikely to be accepted politically. It thus becomes much more difficult in the future to prevent social exclusion from growing again. As I see it, we find ourselves at a crossroads. Either social exclusion is permitted to rise and employment levels drop, or a concentrated effort is made to prevent this. Both routes are entirely possible – unfortunately even the former.

Let us note that there is no special measure to drastically reduce exclusion. The notion is otherwise not entirely unusual. From the right, often come simple prescriptions, like it would be enough to scrap the LAS or allow low wages. A common argument from the left is that, since we're providing for the people, they can just as well be employed in the public sector.

A first important change is to get away from alarmism around education, namely the notion that the simple jobs are disappearing or moving to low-cost countries and that the jobs that remain will require increasingly higher academic education. It is true that wages have increased most strongly among the very ablest and most talented: successful executives, prominent artists, the ablest lawyers and so on. But it is also true that those who are now bearing the brunt of rationalisation and computerisation and competition from low-wage countries are those in the middle of the skill distribution.

It is easier to automate tasks performed by a bank teller, a financial assistant and a specially trained industrial worker than to automate the work of a gardener, a hairdresser, a home help, a personal assistant, an electrician or a plumber. These jobs are moving not to China or India, because the tasks must be performed in place, often in direct physical contact with the customer. The phenomenon is usually called *Moravec's paradox*. In addition to the above examples, include market researchers, customer greeters, security guards, restaurant staff, drivers, garbage collectors, cleaners, receptionists, salespeople, professional soldiers, cycle couriers and so on.

Related to this is the remarkable thesis that Sweden, despite several hundred thousand young people and immigrants who lack jobs, must have further labour immigration to meet the demand for labour, particularly in health and social care. What we are implicitly saying in this is that those who already live in Sweden and have no work cannot be expected or do not need to take those jobs. No, they should be done by people from poor countries who move here. Sweden currently has nearly 400,000 immigrants of working age who are not working, at a great social cost, especially for the immigrants themselves. It is, against this background, absurd to talk of labour shortages.

If we add up the number of people who have one of the 20 most common occupations among women, it turns out that a longer college education is required for only 11 percent of these. The corresponding figure for men's 20 most common occupations is almost 25 percent. Moravec's paradox suggests that a high proportion of jobs in the future labour market will not require so much specific training, especially not an academic one. Not least, the integration of IT into more and more jobs means that a general IT knowledge – something virtually all young Swedish people have – means that many jobs in the future will also not require long training.

A job can often be learned quickly provided you have the correct non-cognitive characteristics such as self-discipline, social skills, motivation, work ethic, perseverance, dependability and emotional stability. These qualities can be acquired at a young age, but they are hard to learn later. One who emphasises the crucial importance of non-cognitive capacity in the labour market is Nobel laureate, James Heckman. Non-cognitive skills seem to be as important for success as cognitive skills. The average salary for university graduates is now about 33,000 SEK a month. There are many non-academic occupations where wages are clearly comparable, such as electricians, salespeople and engine drivers. If you include greater opportunities to work overtime, the after-tax wage is higher for a range of craftsman jobs than for many graduates. Yet, it is hard to get enough young people to train as electricians, HVAC installers and panel beaters. Not to mention the difficulty of getting young people to initially embrace a career in areas such as elderly care or social services, despite the fact that the unemployment risk is in principle zero for anyone who is motivated for the job.

The school has not had the same focus on the non-cognitive skills as before, despite the fact that it benefits all students to convey a sense of responsibility, reliability and work ethic. I suspect that Sweden's case in international comparisons of student knowledge – most recently Pisa – is partially linked to this development. These properties are difficult to measure, but a measurable example that can be mentioned is the increase we can observe in how often students are late for lessons. Non-cognitive skills are an important insurance that even those who are not acquiring an academic education are sought after in the labour market.

Many decades of propaganda for theoretical education and devaluation of practical knowledge have helped create today's large discrepancy between educational choices and what is actually demanded and rewarded. When one understands this, it becomes easier to understand why garbage men, electricians and plumbers can have higher salaries than subject teachers with a five-year university education.

In my opinion, a big part of the solution when it comes to the aging population is in helping to adapt young people's expectations of professional life to what is *actually* required. Basically, this is good news. The demand for education is not rising so rapidly that everyone without a long higher education in the future will become unemployed. It only requires that society focus on a broader training in non-cognitive skills that are useful in any job. To avoid dissatisfaction and frustration, we must at the same time – as the American psychologist and social activist, John W. Gardner, pointed out in 1961 in his classic book, *Excellence. Can We Be Equal and Excellent Too?* – find meaning in striving towards excellence no matter what we do. It must feel valuable to be an excellent plumber or an excellent pre-school teacher in the local community, and not just a celebrated musician, sports star or business leader on the global stage.

Unskilled labour migration is not needed, especially if there is already full labour mobility within the EU. However, there is much to be said for labour migration of highly skilled workers with especially in-demand skills from countries such as Australia and Canada. New research by Berkeley economist, Enrico Moretti (see the book, *The New Geography of Jobs*), also shows that high-skilled jobs, especially in densely populated cities, have large spillover effects. Each high-tech job creates another four or five jobs in the local economy. Such spillover effects do not apply to low-skilled jobs. The latter effect indicates a crucial factor in drastically reducing social exclusion: continued urbanisation.

As the service society grows, greater specialisation in the production of services becomes an increasingly important source of growth and job creation. Population-dense environments have great benefits. The dense city's highly specialised companies create demand for workers with specialised skills. Innovation and entrepreneurship are promoted when people interact and change jobs both within and between sectors.

Producing specialised services at a reasonable cost requires high-capacity utilisation, which generally requires a high population density. Similarly, the cost of roads, power grids, sewage systems, garbage disposal and other infrastructure per capita becomes much lower in dense environments with a higher utilisation rate. For this to be possible requires substantially higher investment in infrastructure and housing in and around the larger cities. That in turn can only be realised if a number of political obstacles are overcome. The idea that the whole of Sweden can live with the help of subsidies must be abandoned, rent control abolished and the state invests heavily in infrastructure.

These measures, if they bear fruit, also mean an automatic improvement of the business environment. It simply becomes more attractive to start, operate and expand business for those who have the talent and ability to do so. It does not mean that one, as the Alliance tended to do, can ignore the demand for labour. It is, despite everything, voluntary to be an employer and hire people. Each government that wants to abolish social exclusion must focus on both the demand side, i.e., ensure attractive conditions for creating jobs, and the supply side, i.e., incentives for individuals to market their labour and continually acquire valuable skills.

It is thus quite possible that social exclusion in 20 years could be a marginal phenomenon compared to today. But is it likely?

Although it is possible to define what needs to be done, we must ask whether it is possible to muster sufficient political resolve and consensus to implement it. Many factors speak against this.

To begin with, the economic cost of social exclusion proved to be less than previously thought. Sweden has been able to work with a wide exclusion for a long time without leading to serious financing problems for the public sector. It's been trimming systems gradually and reducing transfer payments relative to full-time workers' incomes without too much protest. The tax from well-paid people's ever-increasing revenue simply covers more benefit-dependent people today than previously. One important reason for this is that, because of major changes in production- and consumption patterns, it has become increasingly difficult to measure inflation and there is evidence that it is overestimated. The Consumer Price Index does not capture the full impact of quality improvements, new products and increased sales in discount stores. In addition, price movements have been very favourable for goods and services that weigh heavily in low-income earners' baskets, while prices have increased on that which high-income earners consume.