

Comments on

**C A Pissarides:**

**Regular Education as a Tool of  
Counter-cyclical Employment  
Policy**

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# Outline

- General
- Unemployment and university enrollment in Sweden
- Discretionary vs. automatic stabilization tools
- Efficiency
- Interplay with other policies (UI, ALMP)

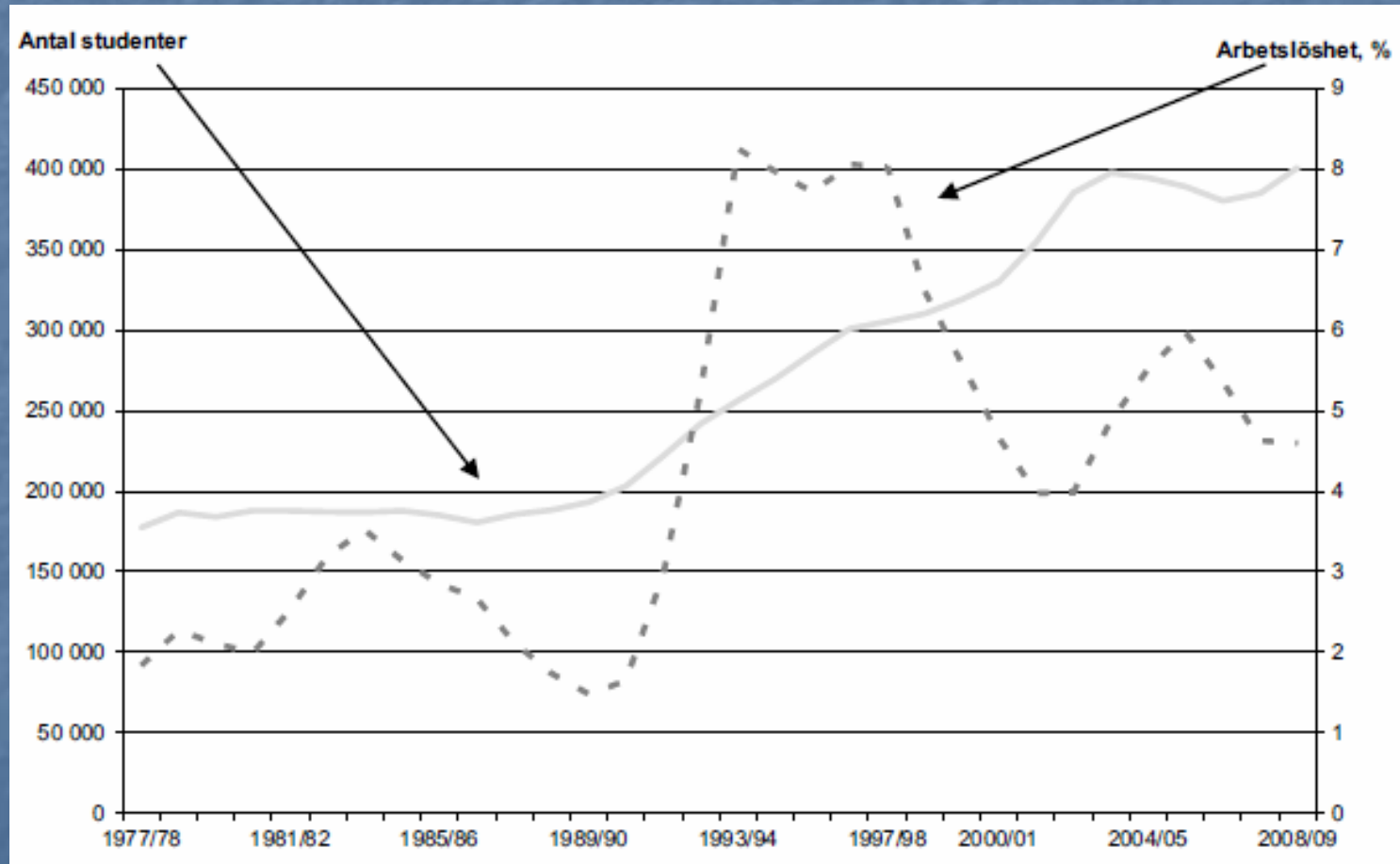
# The paper argues:

- There are sound arguments for making use of regular education as a counter-cyclical device
- The foregone cost of education is lower in a recession with high unemployment
- Some temporary fall in standards is inevitable, and perhaps desirable

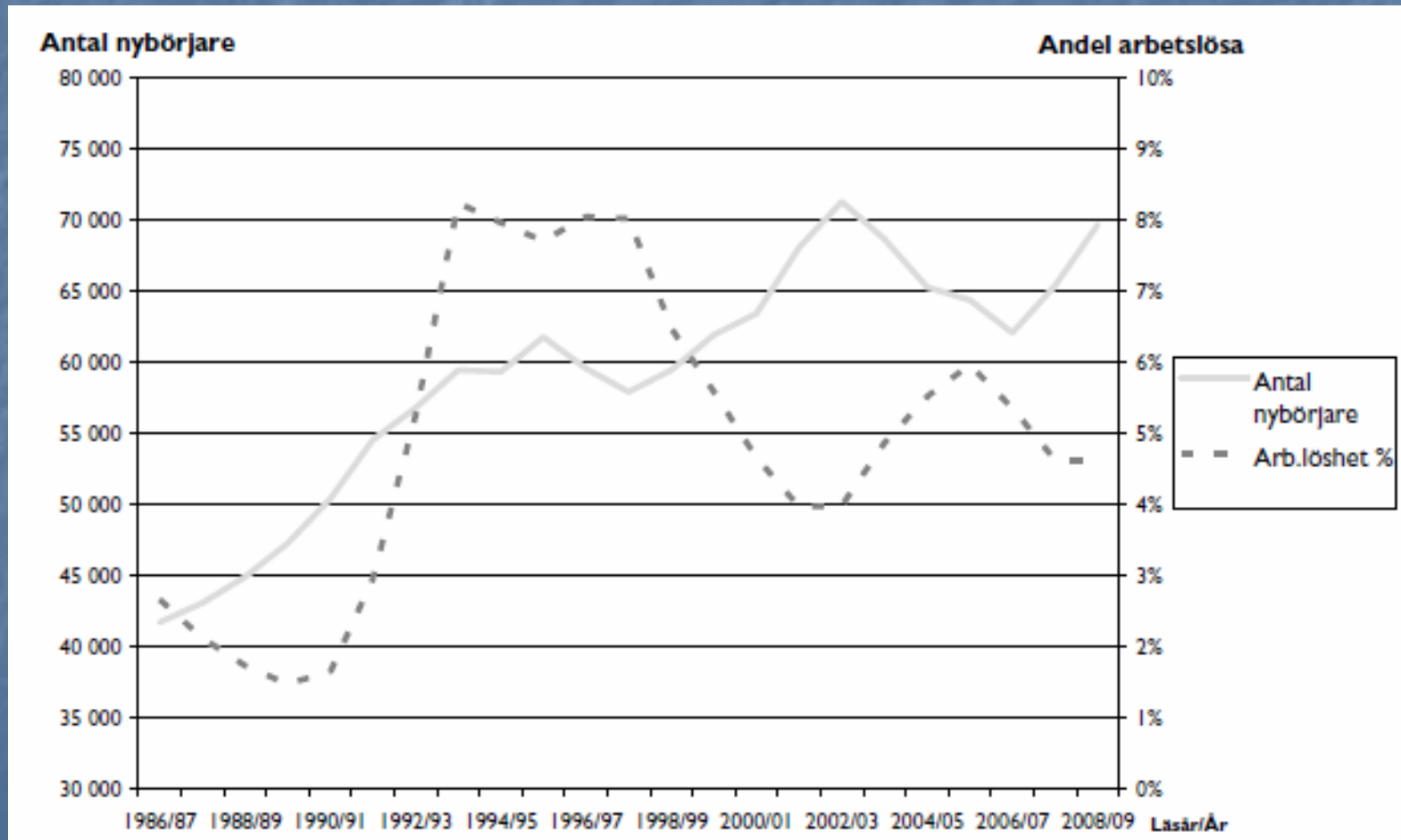
# Unemployment and university enrollment

- Strong empirical evidence that the demand for education increases in a recession with high unemployment

# The number of university students and unemployment in Sweden



# University entrants and unemployment



# University entrants among 19 year-olds and unemployment

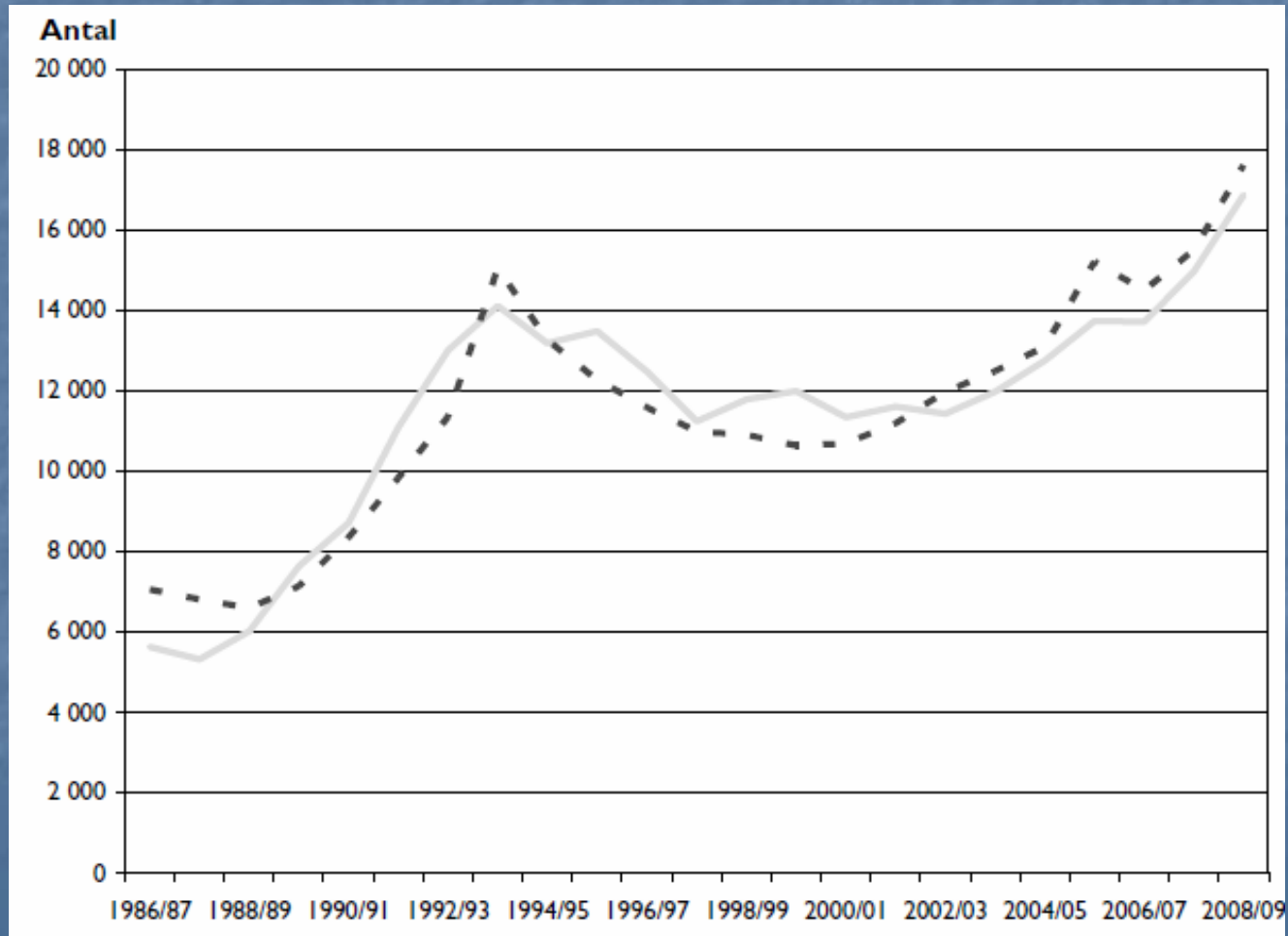
Enrollment rate among 19 year-olds

=

0.376 \* Unemployment rate among 16-19 year-olds

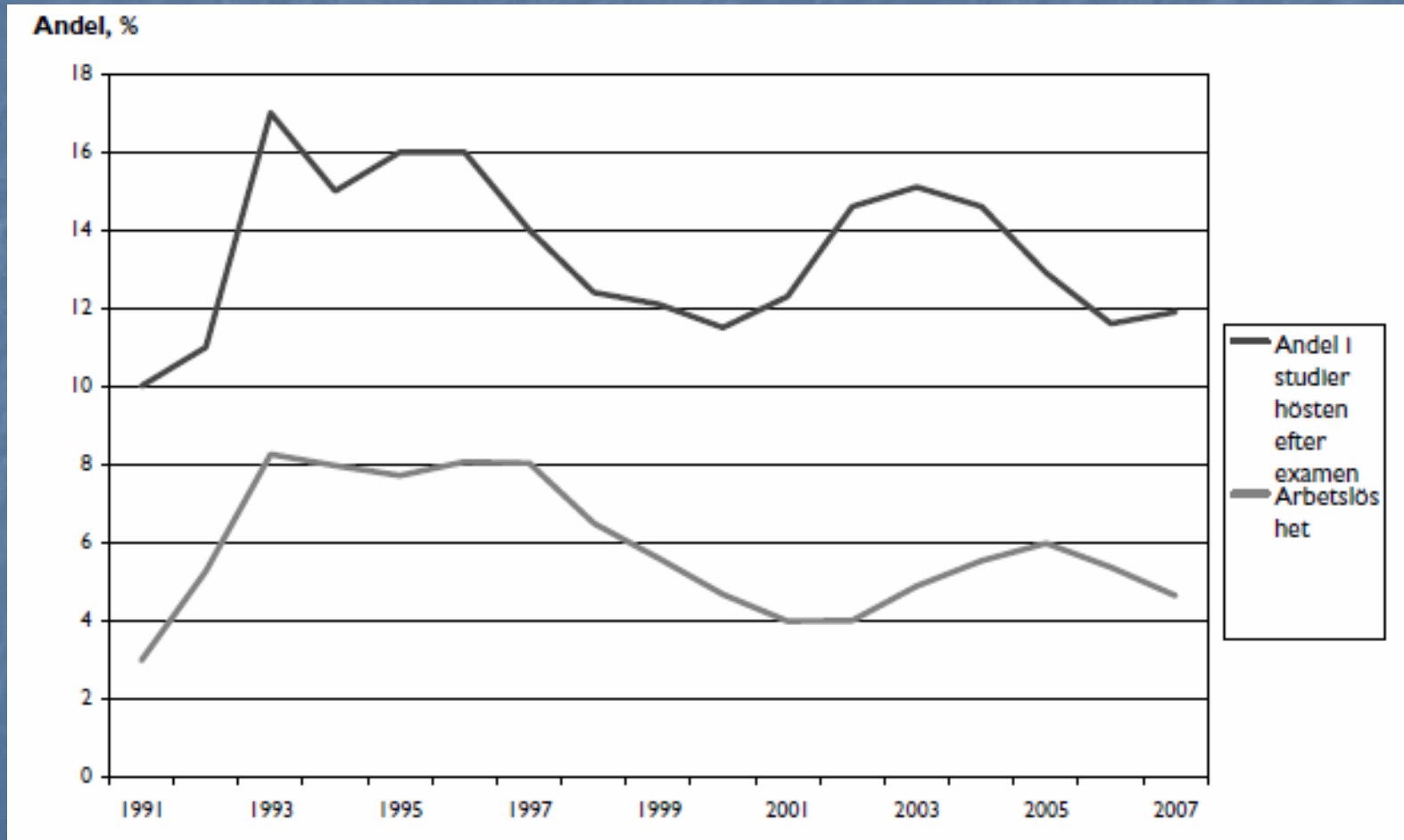
+ other variables

# University entrants among 19 year-olds, actual and predicted





# Continuation in education after graduation and unemployment (%)



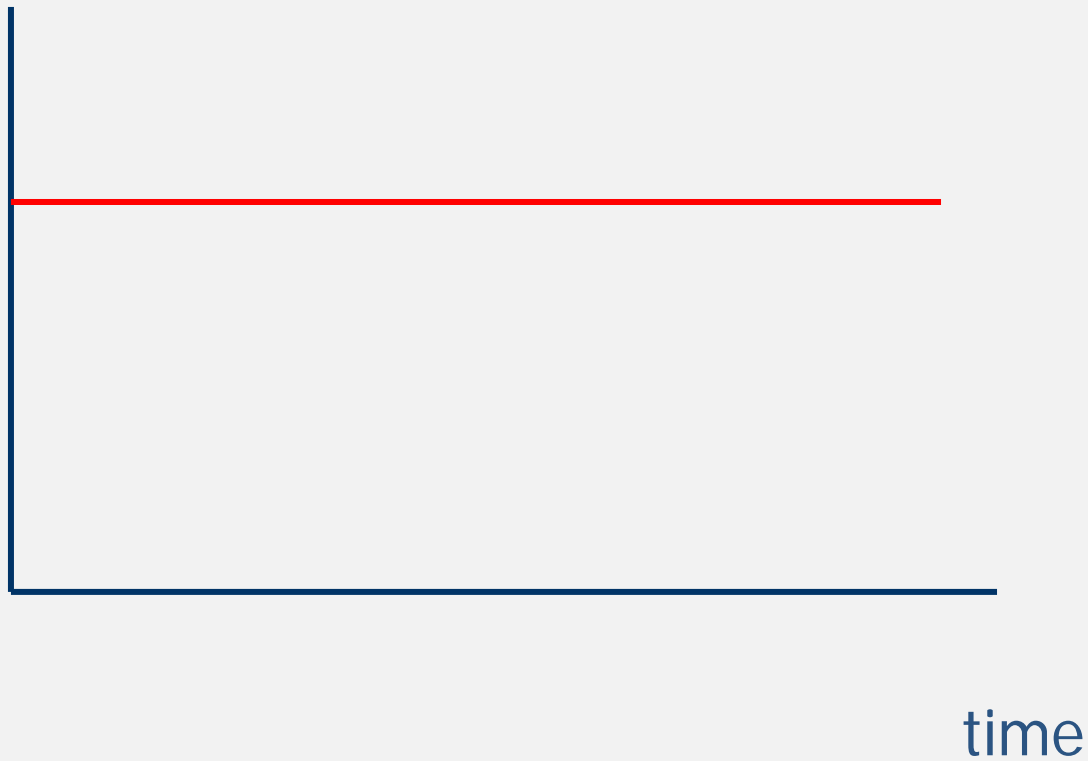
# Why does enrollment respond to unemployment?

- The demand for education increases
  - Private costs decline
  - Insurance: education as substitute for UI
- The supply of slots responds to demand
- The admission rates increase, reducing the number of unfilled slots

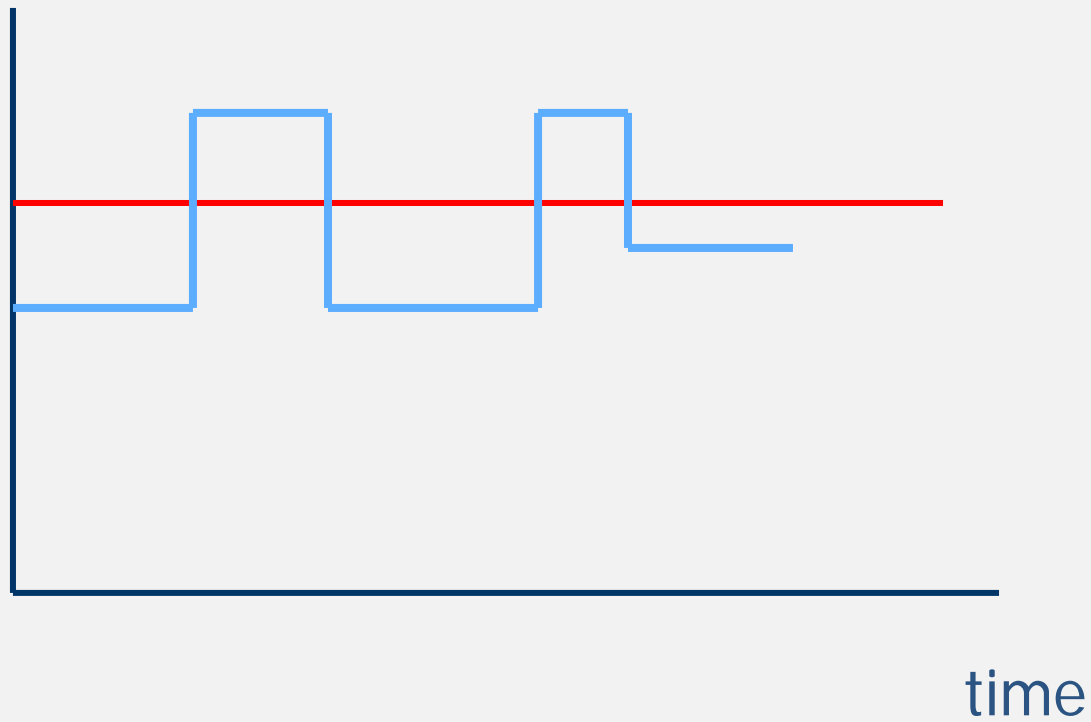
# The Swedish system for the allocation of funding

- Flexible cash limits
  - Funding based on the number of students and student performance
  - Unused funds transferable to the following years (up to a limit of 10 %)
  - Overproduction in one year can be transferred across years

# Flexible cash limits



# Flexible cash limits



# Regular education as an automatic stabilizer

- Flexible cash limits reduce the need for discretionary decisions on counter-cyclical education policies
- Limits to flexibility:
  - The supply of teachers
  - Infrastructure (rooms, computers...)
- Some fluctuations in quality are inevitable

# Efficiency

- Are private decisions on education socially efficient?
  - In general, no
- Missing markets, insurance, imperfect capital markets
- Fiscal externalities
- Search and matching externalities
- Too much or too little education?
- The right type of education?

# Interplay with unemployment insurance

- Absence of UI for new graduates prolongs the studies
  - Education as substitute for UI
- Cf. Sweden:
  - 'Studerandevillkoret' 1974-2007: Students entering the labor market eligible for UI after three months
  - Abolished 2007
  - Active labor market measures for youths aged 16-24
  - Median age at graduation from university is 27
  - A case for reintroduction of studerandevillkoret?