

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)

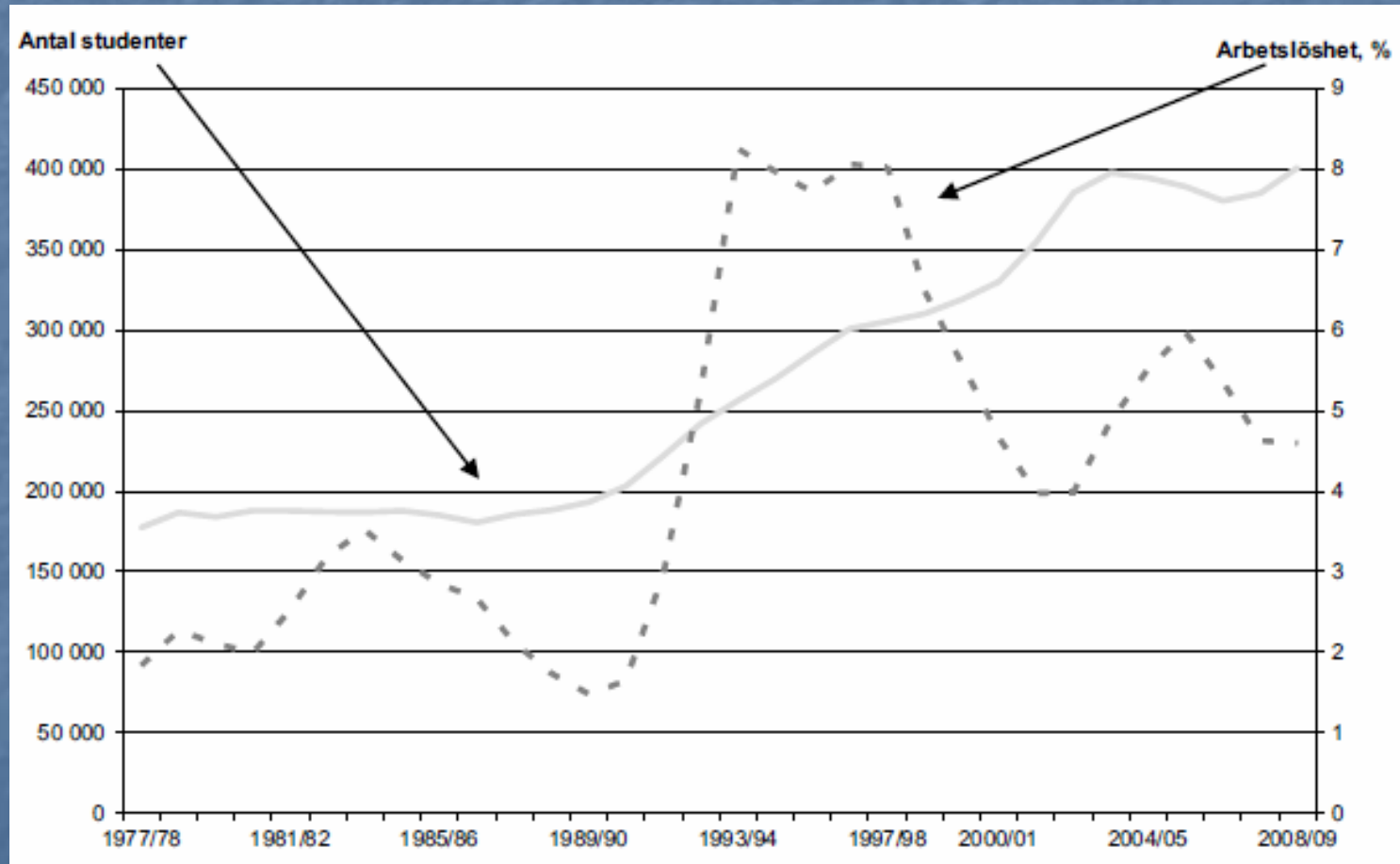
The paper argues:

- 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

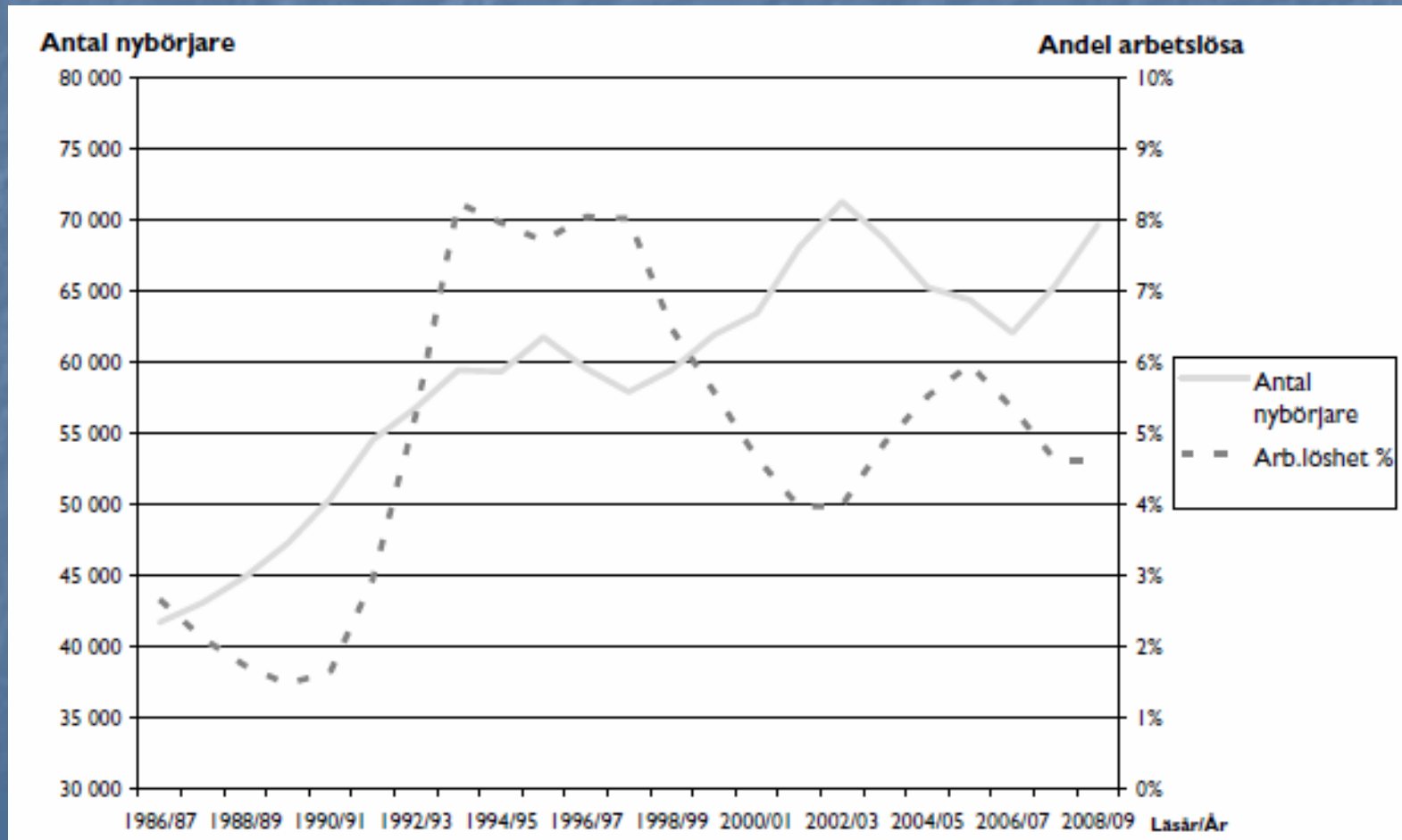
Unemployment and university enrollment

- 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

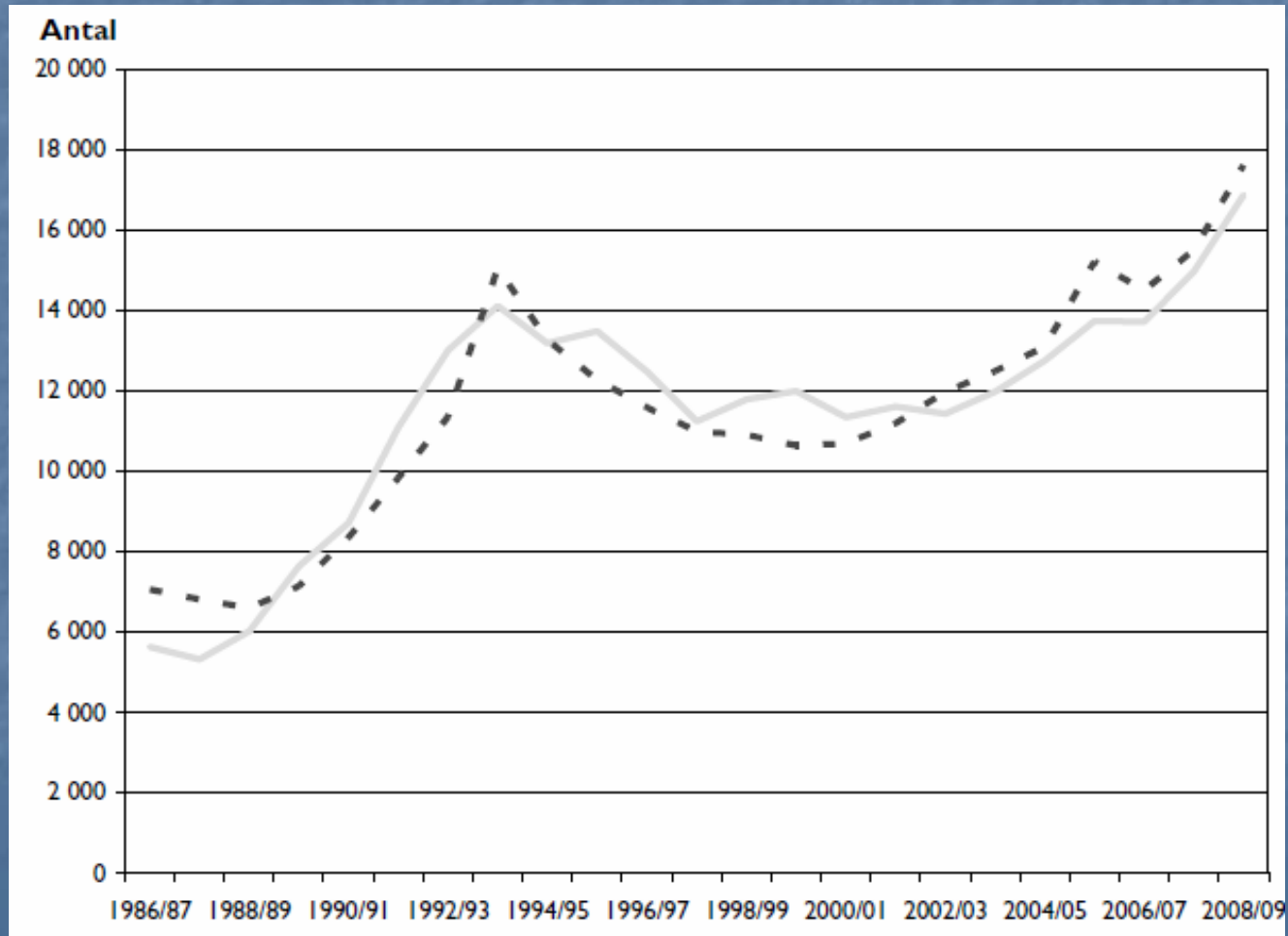
Enrollment rate among 19 year-olds

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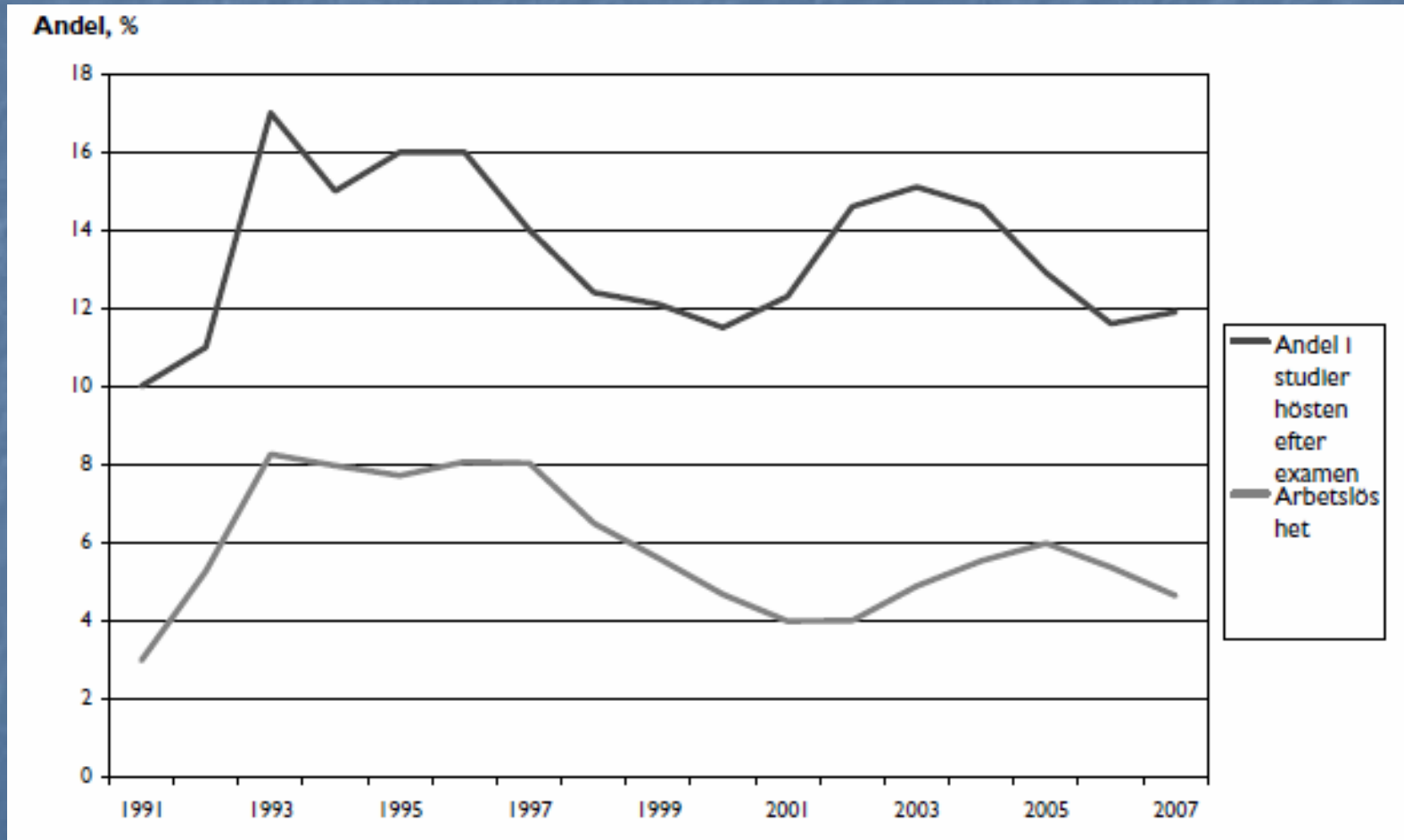
0.376 * Unemployment rate among 16-19 year-olds

+ other variables

University entrants among 19 year-olds, actual and predicted



Continuation in education after graduation and unemployment (%)



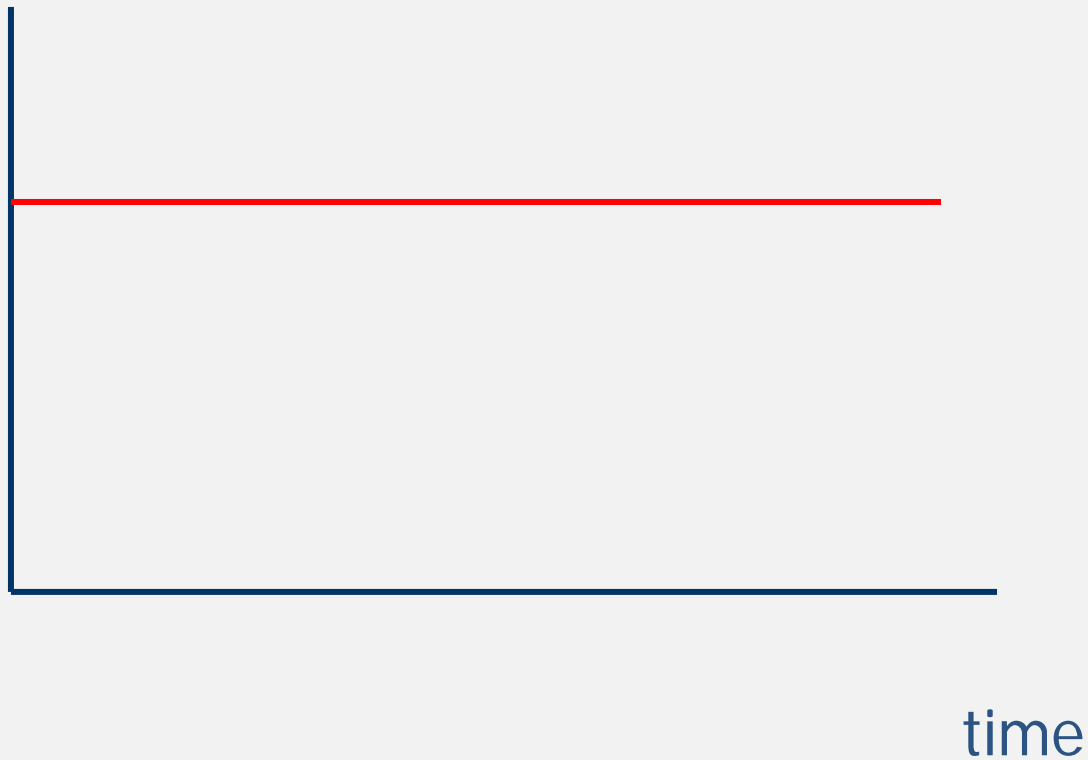
Why does enrollment respond to unemployment?

- 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

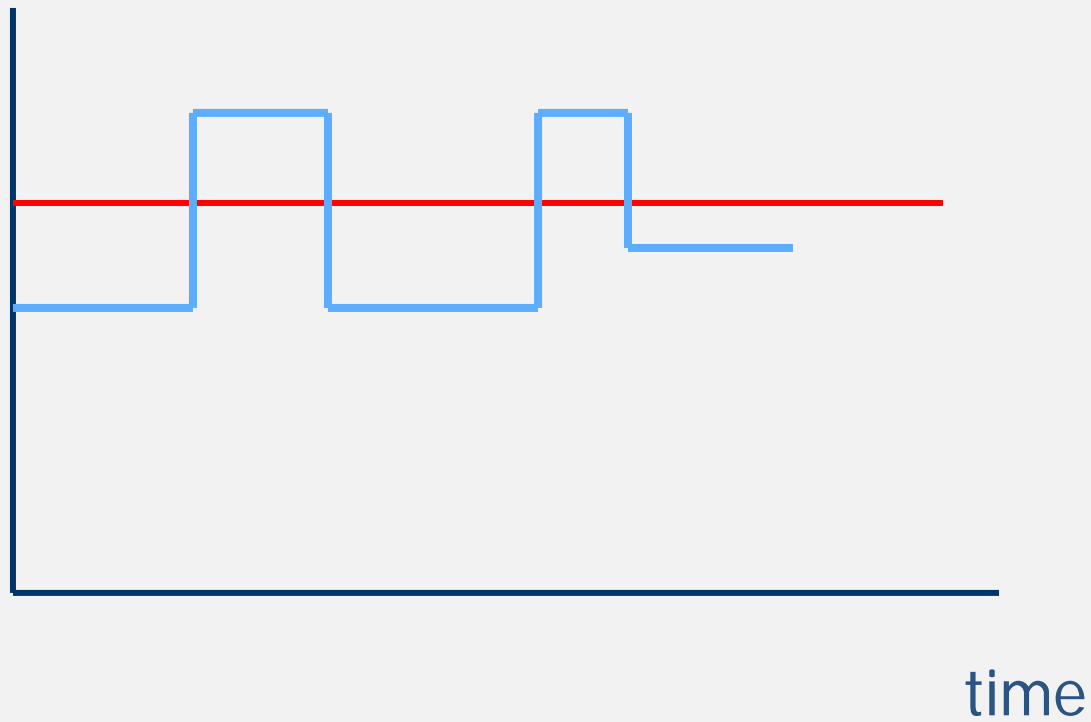
The Swedish system for the allocation of funding

- 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?