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Comment on Lisa Lynch: Wage inequality and long-term unemployment: is human capital the answer?

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This is a stimulating paper about important issues. It considers the theoretical arguments in favor of education and training, assesses the empirical evidence, and discusses policy implications. The paper mainly focuses on the U.S. labor market. My comment first deals with the empirical evidence and then addresses the policy implications from a Swedish (and European) perspective. As a background to the discussion, Table 1 provides the development of unemployment rates in the four largest EU countries, Sweden, and the U.S.

Table 1. Unemployment rates in Europe and the U.S., 1983-1996.

Year	Four largest EU countries	Sweden	U.S.
1983	9.1	3.5	9.6
1990	8.0	1.6	5.6
1995	10.0	7.6	5.6
1996	10.4	8.0	5.4

Notes: The four largest EU countries are France, Germany, Italy, and the UK. The figures are unweighted averages.
Source: OECD (1997), *Employment Outlook*, OECD, Paris.

Throughout the 1983-1996 period, unemployment has remained at about 10% in the four largest EU countries, which together have a population about the size of the U.S. Sweden has experienced a large increase in the unemployment rate, while the opposite has occurred in the U.S.

According to Figure 2 in Lynch's paper, about 15% of unemployed Americans have been out of work for 27 weeks or more. She notes that there is an upward trend in long-term unemployment, controlling for overall unemployment. Nevertheless, the situation in

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the U.S. is much better than in Europe, as shown in Table 2. The incidence of long-term unemployment is nearly 70% in the largest European countries, and this figure has been rather stable since the early 1980s. Swedish long-term unemployment has increased considerably, up to almost 40%. Evidently, there is reason to worry more about the development of long-term unemployment in Sweden and the rest of Europe than in the U.S.

Table 2. The incidence of long-term unemployment in Europe and the U.S., 1983-1996. Unemployment six months and more, as percent of total unemployment.

Year	Four largest EU countries	Sweden	U.S.
1983	70.4	24.9	23.9
1990	63.9	15.8	10.0
1995	67.6	35.6	17.3
1996	66.8[a]	38.4	17.4

Notes and *source:* SeeTable 1.

[a] Excluding Germany.

The evidence presented in the paper supports the view that the problem with human-capital formation is larger in the U.S. than in Europe. At least this seems to be true for basic skills—a relatively larger proportion of Americans tend not to achieve minimum standards, for example, in mathematics tests. Arguably, the case for improving basic skills in the U.S. is strong.

I complement the data in Lynch's Figure 6 with Table 3, which shows the unemployment rate by education, with comparable data for the four largest EU countries, Sweden, and the U.S. As shown, unemployment is higher among the less educated in all countries. The highest unemployment rate in the table is 13% for Americans with less than an upper secondary level education, which is the lowest educational level. But at higher levels, the U.S. labor market is the best performer among the countries considered.

Table 3. Unemployment rates by educational attainment in Europe and the U.S, 1994.

Educational level	Four largest EU countries	Sweden	U.S.
Less than upper secondary level	12.4	8.8	12.6
Upper secondary level	8.8	7.6	6.2
Tertiary level	5.6	3.6	3.2

Notes and *source:* See Table 1.

Several studies reviewed in the paper suggest that the effects of private-sector training are large and beneficial. It could be added that this result also seems to be valid when confronted with Swedish data, as shown in Kazamaki Ottersten et al. (1996) and Regnér (1997). The first study, which concerns the machine-tools industry, deals with productivity and cost effects from firm training. According to the results, the probabilities for firm-training expenditures to yield net decreases in total costs were about 80%. The plants in the sample made long-run gains between 3 and 25 Swedish crowns in total costs for every crown spent on training. Given the compressed wage structure in Sweden, it is interesting to find out whether the benefits from the acquisition of job skills accrue to the workers who acquire the skills. Results in Regnér (1997) suggest that the wages of male workers who received firm training increased by about 20%, compared to the wages for workers who did not receive such training.

Lynch discusses some of problems that occur in the literature on the returns to education and firm training. I agree with her conclusion that aggregational issues have been overlooked. We need to know much more about the effects of different types of education and training for various groups. Nevertheless, I think that the problems in the literature on firm training deserve more attention. Analyzing the effects of firm training is a particularly difficult research task, because good studies in this area require a great deal of data on both individuals and firms, and this combination is rarely achieved. Data on individuals are needed to handle problems arising from non-random selection for training and the effects of the pre-training human-capital structure. Data on firms are required so that costs associated with foregone production during training may be considered and the specific contents of the training may be more closely observed.

What about the policy implications of the findings? As the author is well aware, one should be wary of arguments that suggest market failures in the acquisition of skills. Education and training may be beneficial, but this does not necessarily mean that the government should provide the services. After carefully considering the arguments for and against government intervention in the U.S., Lynch arrives at the conclusion that much more of it is needed. While this may be correct regarding the U.S., it is much more uncertain whether the policies currently under way in Sweden would pass the test.

In 1996, the Swedish government formulated a plan to reduce open unemployment by 50% by 2000. Education and training were identified as key elements in the strategy to accomplish this goal. The policies focus on the provision of additional university places (mostly in sciences and engineering) and adult education administered by the municipalities—the purpose of which is to upgrade the skills to upper secondary level. The numbers involved are so large that it is fair to say that Sweden is now undertaking a large-scale experiment in education and training.

As far as I know, no empirical evidence exists regarding the effects of experiments of this type. The studies referenced by Lynch, which show favorable effects of government-financed training, have concerned much smaller programs. Furthermore, many of the successful programs in the U.S. have tended to be targeted toward disadvantaged groups on the labor market (see Friedlander et al., 1997). This is not the case with the Swedish programs. So, in my view, the Swedish experiment receives little scientific support. Of course this does not necessarily mean that the experiment must fail. If little else is done to reduce unemployment, it must, however, be considered a high-risk option.

References

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