

## Note on unemployment policy and the crisis

The case for government action is even stronger when we have unemployment which the monetary activity did **not** wish (in order to control inflation). But there is always a case.

### Objectives

1. Prevent long-term unemployment since LTU become separated from the labour force. (This generates hysteresis and impedes full economic recovery.)
2. Prevent benefit dependence by offering people job opportunities.

### Solution

Offer everyone work within a year of becoming unemployed.

Countries which have adopted an activation approach have experienced dramatic reductions in unemployment at given vacancies (see Figure 1). Others have not (Figure 2). (OECD Employment Outlook 2005, 2008)

### UK situation

We have proposed an offer of 6 months temporary work after 12 months' unemployment. The government has instituted the following:

From 6 months    An employer subsidy for hiring.  
                         Intensive placement efforts.

Months 12-18    Employment at the standard wage in publicly funded projects.

Currently only applies to people under 25 (1/3 of the unemployed). We hope it will cover all.

### Incapacity benefits

People on these benefits have to be assessed for what work they **can** do, and referred to such work. They also need to be diagnosed and if the condition is treatable they should be in treatment. (In UK half are suffering with depression and anxiety and under half of these are in treatment.)

### The economics of mental health

The least developed branch of labour economics. If cognitive behavioural therapy were offered to all who came forward and are diagnosed to need it (on official Guidelines) it would **save** money via the employment effect. An extra 4 percentage point employment rate will pay for the treatments. (National Institute Economic Review, October 2007)

**Figure 1** Some lower unemployment countries – during the 1990s unemployment at given vacancies fell

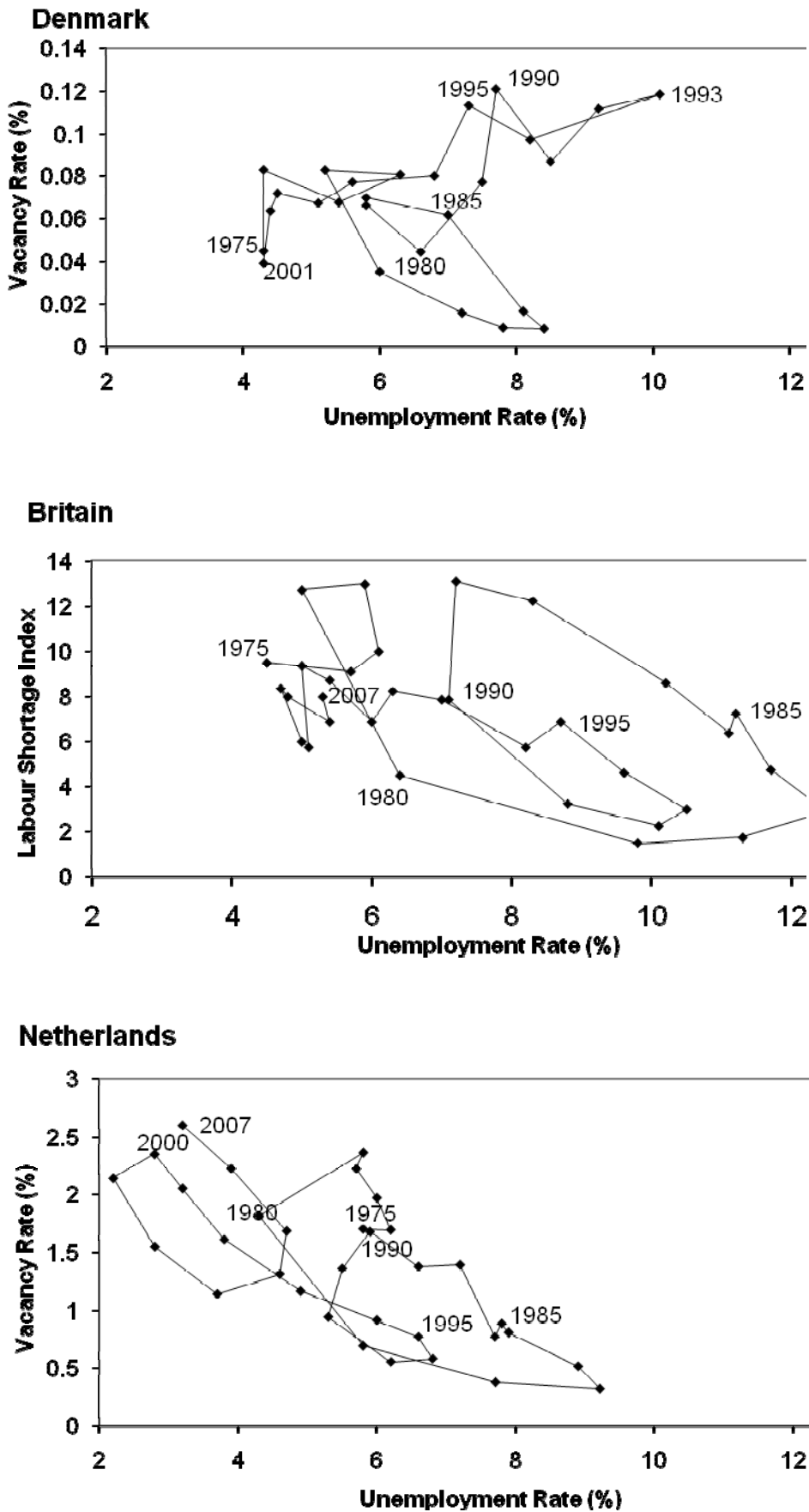


Figure 2 - Some higher unemployment countries – during the 1990s unemployment at given vacancies did not fall

