

Work, sickness, earnings, and early exits from the labor market: An empirical analysis using Swedish longitudinal data

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This thesis contains a general overview, and five papers on the work, earnings, sickness, and early exits from the labor market of individuals in Sweden.

Using relatively reliable data for hours worked and annual earnings, Paper 1 analyses the effects of (previous) sickness on both annual earnings and hourly wages, and find that people have lower annual earnings if they have experienced long-term sickness, and there is only a very weak effect on the hourly wages. Since the effect cannot be attributed to an effect on the wage rate, it has to have resulted from a reduction in time spent working. An implication for the policy is that the work alternative should always be more attractive than the alternative of disability for people who can still work. It is desirable to have programs directed to improve the social and physical work environment, and individual performance.

Analyzing “voluntary” work absence (i.e., sickness spells of seven days or less, which do not require a medical certificate) for a period with three policy regimes (i.e., two reforms), Paper 2 found that the rules clearly influenced people’s decisions about when to report the beginning and ending of sickness spells. Additionally, even though economic incentives mattered, people with poorer health did not “shorten” their absences to the same extent as those with better health.

Analyzing long-term (LT) labor absence due to sickness (i.e., spells of at least 60 days), Paper 3 found that both individual and labor market characteristics had significant effects on the length of absence. To slow down or reverse the increasing trend of LT sickness, special policies could be oriented to prevent deterioration of the health status of all employees before it is too late. In this context, the involvement of employers in payment of their employees’ sick pay (during the first 2, or even 4, weeks of each spell) may be well motivated, not only as an instrument for “disciplining” employees’ absenteeism, but also as an indicator telling employers something about the working conditions in their organizations.

In addition to Paper 3’s analysis of the duration of LT spells regardless the exit state, Paper 4 analyzed exits from long-term sickness using both duration analysis and a multiple choice framework. This analysis was suggested by the complexity of the exit decision, which implies, in a very simplified framework, at least two aspects of the exit process: an aspect that governs the duration of sickness spell, and another that governs the type of exit. The results suggests that a greater use of the working capacity of the individuals should be made, and more lost working capacity could to a greater extent be regained, using more efficient treatment and rehabilitation measures.

Analyzing the first exit from the labor market due to disability at a certain age, conditional on the fact that people have remained in the labor force until that age, Paper 5’s conclusion is that the exit decision is an extreme alternative, and is not always the best alternative for the individual. On the other hand, even supposing that it is accepted that working some hours has a positive impact on individuals with health problems, it is difficult to match individuals with available jobs on the market. In such conditions, the process of integrating these people in the labor market becomes very complex, and it requires resources allocated on both sides: training and/or vocational rehabilitation of those individuals, and the improvement of the working conditions and rethinking the job tasks in general.

Keywords: annual earnings and hourly wages, short-term, and long-term absenteeism due to sickness, disability, exits from the labor market, multiple spells, unobserved heterogeneity, duration analysis.

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