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# Labour Market Measures in Sweden 2008–13: The Crisis and Beyond

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## Introduction

In the wake of the global financial crisis, the Swedish economy started to deteriorate rapidly in the second half of 2008, and in 2009 Sweden's real GDP decreased by 5 per cent. With this severe drop in aggregate demand and output, employment decreased by around 100,000 between 2008 and 2009 (a decreased employment rate of 2.1 percentage units), while the unemployment rate increased from 6.2 per cent to 8.3 per cent of the labour force. The fall in output and employment was particularly marked in manufacturing and construction, with decreases of 14 per cent and 6 per cent of employment respectively (Statistics Sweden). With regard to Swedish manufacturing, the fall in employment was particularly marked in export-oriented industries. Due to the sharp increase of unemployment, local plant closure and the overall reduction of economic growth, the recession led to a reduction of tax revenues for local authorities that are responsible for the provision of social services, health and education. In a first phase, this situation led to severe budget cuts at the local level and decline in public employment, mainly among public employees on short-term contracts.

In the face of the drastic worsening of the economic situation, the government took financial and fiscal stimuli measures at the end of 2008. In particular, extensive investments in the maintenance and operation of the road and rail network were decided on. In order to stimulate activity and maintain labour demand in the construction sector, work in the form of repairs, maintenance and improvement of one-family houses and tenant housing were made tax deductible. During 2009–10 the government announced further countercyclical expansionary measures to combat the crisis. These new fiscal measures covered mainly two areas: increased government grants to municipalities and county councils and more resources for active labour market policy. The government decided on a further increase of 10 billion Swedish kronor (SEK)<sup>2</sup> in the central government grant

to municipalities and county councils in 2010, as well as further investment in infrastructure (SEK 1 billion) in order to maintain and secure employment in the public sector and an increase of social transfers such as child and housing allowance for low-income earners in order to sustain household consumption.

The Swedish economy recovered quickly with an increase of real GDP by 6.6 per cent in 2010 and 2.6 per cent in 2011. Employment also increased by 25,000 in 2010, and as much as around 100,000 in 2011. It should be emphasized that Sweden's relatively quick recovery from the financial crisis in 2009 can be attributed to the expansionary fiscal policies conducted by the Swedish government as well as to more favourable macroeconomic conditions, with a quick recovery of the exporting industries thanks to a floating exchange-rate regime. At the same time, the Swedish government undertook several structural reforms aimed principally at increasing labour utilization in the long run, through essentially supply-oriented measures, such as tax cuts and reforms of social protection systems (unemployment benefit and sickness insurance). Several tax reforms were conducted aimed at reducing the tax wedge and increasing labour supply at both the extensive and intensive margins. The most important tax reform in this context was the introduction of a system of in-work tax credits aimed at strengthening work incentives for low-income earners and reduction of marginal tax for high-income earners.

Sweden is a success story in the sense that real GDP recovered quickly in 2010 (6.6 per cent in Sweden compared with an average growth rate of 2 per cent in the EU15) and there was continued positive growth during the period 2011–13, while other European countries had experienced negative growth rates and increasing public debts. Furthermore, the Swedish employment rate has increased and the wage agreements have resulted in real wage increases. Nevertheless, the following sections will describe how the apparent success of the Swedish economy seems to have come at the cost of permanently increased levels of unemployment and increased long-term unemployment, especially among vulnerable groups such as low-skilled young people and workers with low educational attainment.

1. Dominique Anxo and Thomas Ericson are researchers at the School of Management and Economics, Department of Economics and Statistics, Linnaeus University, Växjö, Sweden.

2. 1 € ≈ SEK 9.2.

## 1.1 Employment trends

As can be seen in figure 1, Sweden experienced increasing employment during the period between 2010 and 2013, while unemployment remained relatively high but stable around 8 per cent of the labour force. Increasing employment was accompanied by an increasing labour force and an increasing population due to immigration.<sup>3</sup> The rate of labour force participation remained fairly constant at around 71 per cent of the population 15–74 years old during the period 2008–13.

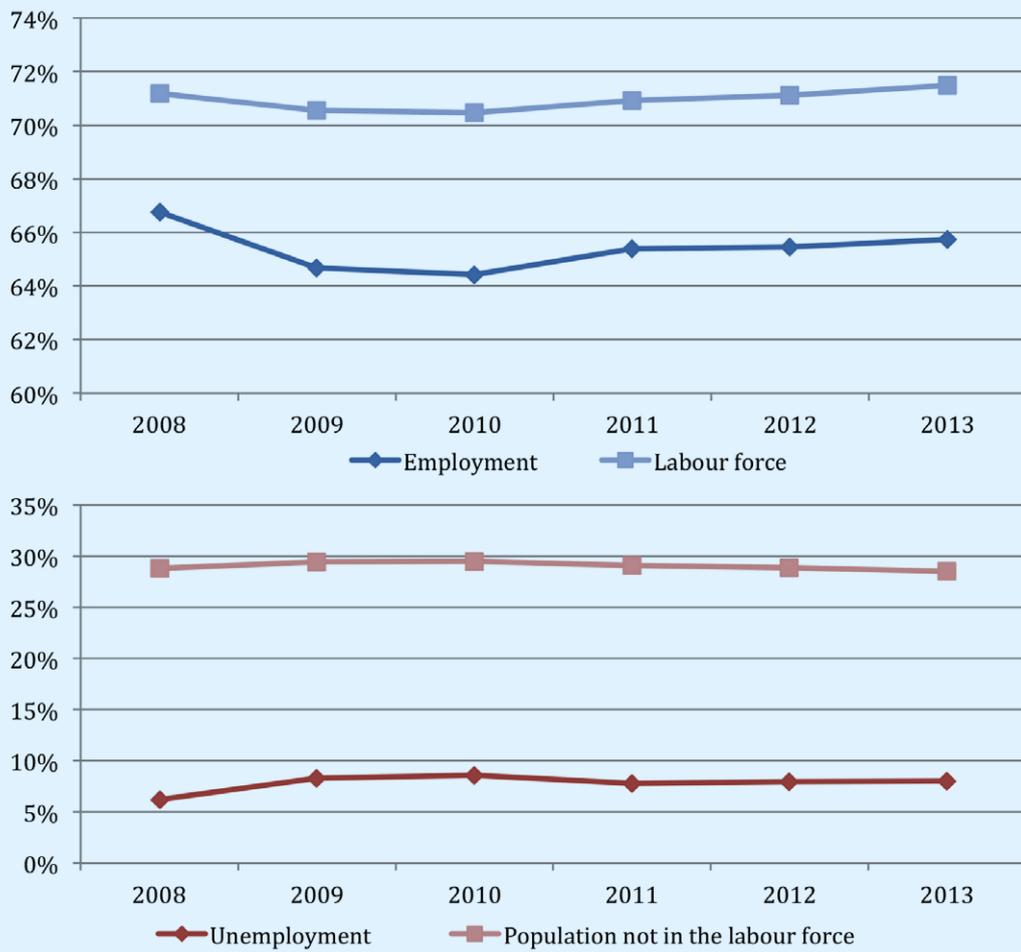
In figure 2, fixed-term employment as a percentage of total number of employees decreased during the early phases of the crisis, but increased during the following years up to 2013. In addition, the share of part-time employment (1–34 hours/week) rose during 2009 and then declined during the following years. Apparently, the decreasing employment in 2009 caused layoffs of agency workers and temporary workers as well as an increasing share of part-time employment, while the employment growth after 2010 has slightly increased the share of fixed-term employment and decreased part-time work. As seen in figure 3, the increasing share of fixed-term contracts is mainly attributed to workers with basic compulsory education.

Furthermore, the highest share of temporary employees is found among employees not affiliated to a union where, since 2010, around 36 per cent of non-affiliated female employees have been temporarily employed and around 26 per cent of non-affiliated male employees have been temporarily employed (figure 4). There is also an increasing trend of temporary employment among blue-collar employees affiliated to unions, while the increasing trend is weaker among the white-collar union-affiliated employees. Female blue-collar employees are mainly employed in service and healthcare sectors, while male blue-collar employees are employed in manufacturing industries. Figure 5 shows that the increasing portion of fixed-term employment is mainly attributed to the age groups 20–24 and 65–74.

Finally, figure 6 illustrates that the rate of self-employment remained essentially constant during the period 2008–13 at around 10–11 per cent of total employment. There is a relatively low incidence of self-employment in Sweden and there is no empirical support of increasing self-employment due to the economic crisis.

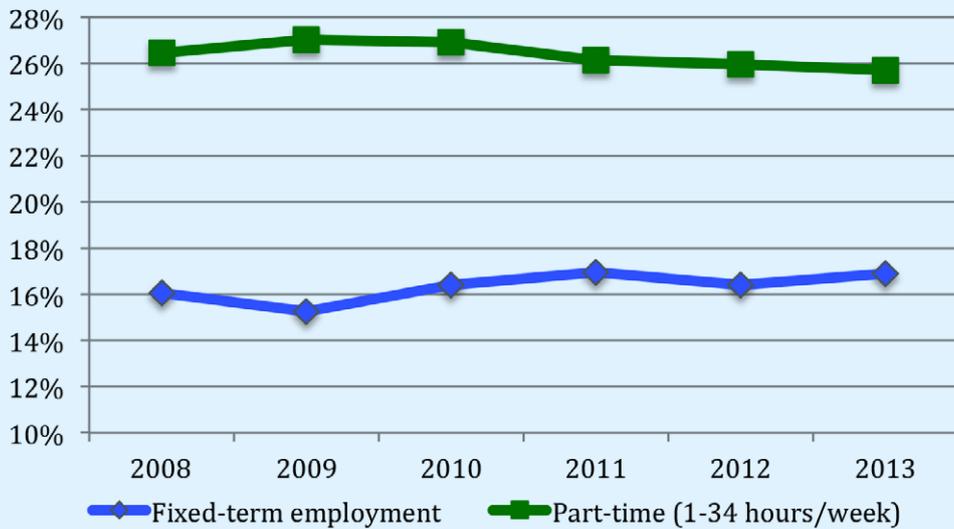
3. Between 2010 and 2013 the population increased by around 230,000 individuals (2.4 per cent), with a net immigration of 212,000 persons (Statistics Sweden).

**Figure 1. Trends of employment, labour force participation, unemployment and population not in the labour force (per cent), 15-74 years, 2008-13**



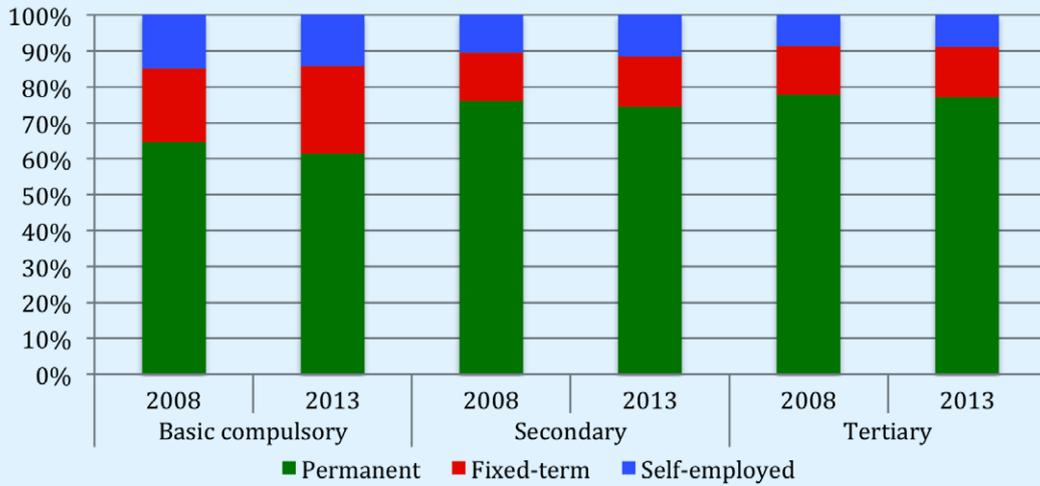
Source: Statistics Sweden (2014), Labour force surveys.

**Figure 2. Fixed-term and part-time employment, percentage of dependent employees, 2008-13**



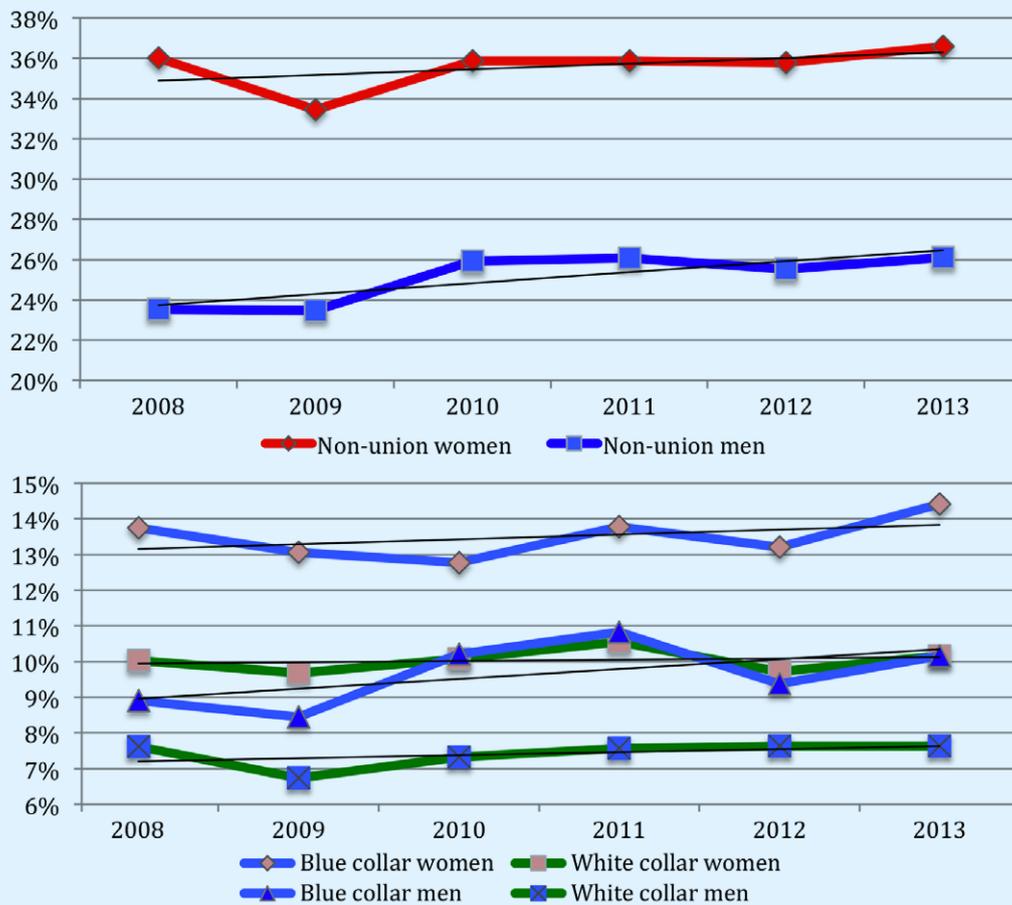
Source: Statistics Sweden (2014), Labour force surveys.

**Figure 3. Incidence of open-ended and fixed-term contracts and self-employment by educational attainment, 2008 and 2013**



Source: Statistics Sweden (2014), Labour force surveys.

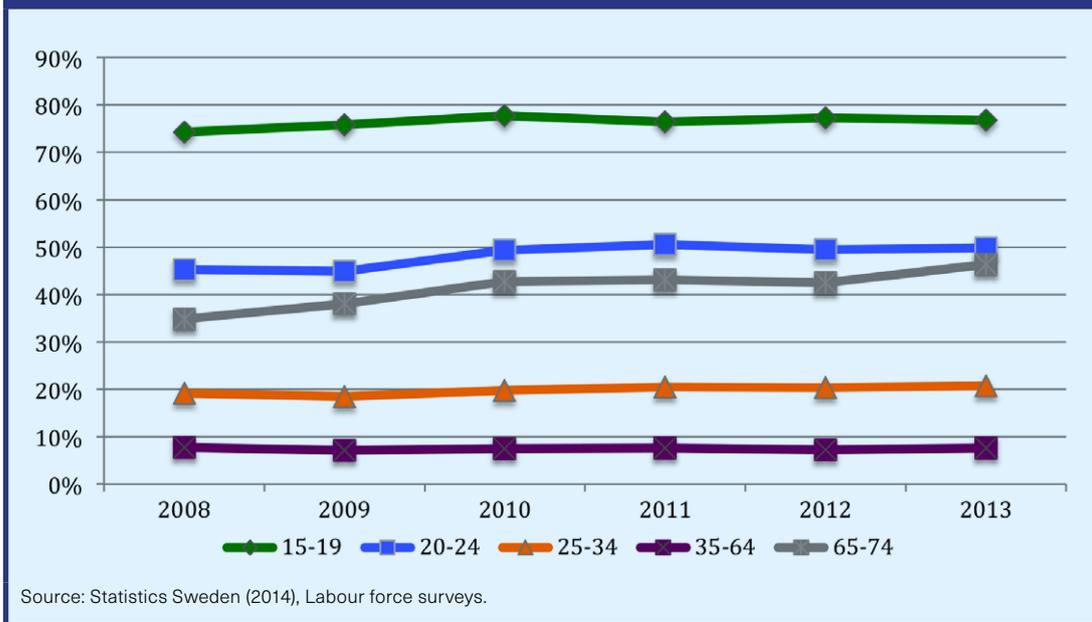
**Figure 4. Fixed-term employment, per cent of dependent employees, blue-collar and white-collar,\* non-union and union affiliated, by gender, 2008-13**



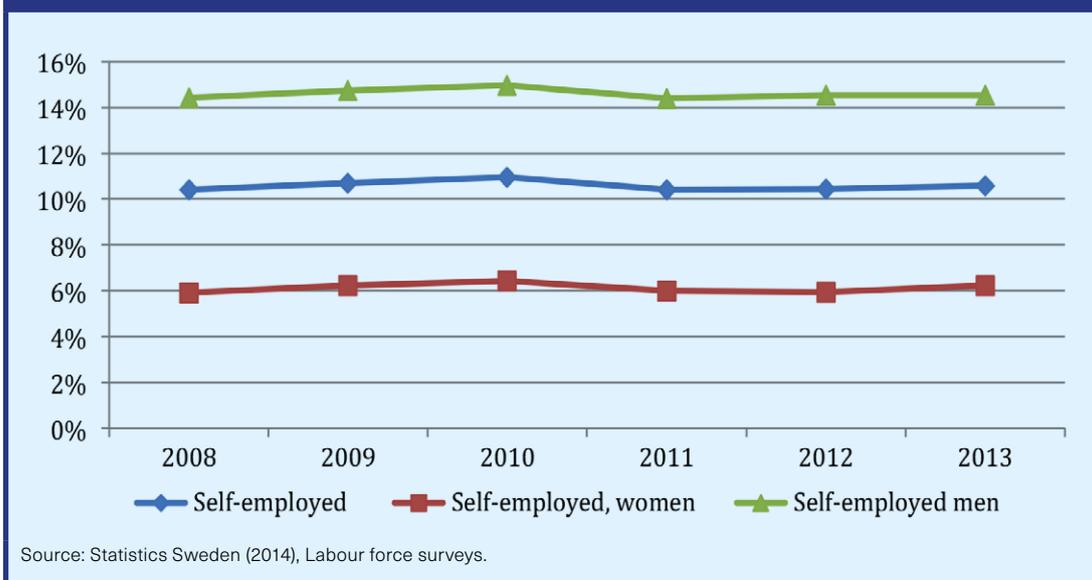
\*Blue-collar employees are members of trade-unions that are affiliated to The Swedish Trade Union Confederation (Landsorganisationen, LO). White-collar employees are members in trade unions affiliated to The Swedish Confederation for Professional Employees (Tjänstemännens centralorganisation, TCO) and The Swedish Confederation of Professional Associations (Sveriges akademikers centralorganisation, SACO). There are also other trade unions not affiliated to the above confederations, but they organize a relatively small share of the employees and are not included in the graph.

Source: Statistics Sweden (2014), Labour force surveys.

**Figure 5. Fixed-term employment, per cent of dependent employees, by age, 2008–13**



**Figure 6. Self-employment, percentage of total employment, by gender, 2008–13**



## 1.2 Long-term unemployment<sup>4</sup>

As illustrated in figure 1, the rate of unemployment has been constant at around 8 per cent since 2009. However, the share of long-term unemployment increased during the period 2008–13. Table 1 shows that the average duration of unemployment was 43–44 per cent longer for young men and women (15–24 years) in 2013 compared with 2008. Average unemployment duration also increased in the age group 25–54 by 41 per cent (36 per

cent for women), while older workers' unemployment duration increased by 29 per cent (17 per cent for women). This longer spell of unemployment is also illustrated in table 2, where the percentage of those unemployed for 27 weeks or longer increased from around 24 per cent in 2008 to around 30 per cent in 2013. There is thus an apparent shift towards long-term unemployment, where durations between 5 and 26 weeks remain essentially constant at around 38 per cent of total unemployment, whereas short-term unemployment of 1–4 weeks decreased from approximately 32 per cent in 2008 to 23 per cent in 2013. A further consequence of the longer unemployment durations is that the number

4. In Sweden, long-term unemployment is defined as six months or more of joblessness (three months for young people aged 16–24 years).

of long-term unemployed (27 weeks or longer) almost doubled for young people between 2008 and 2009 and has since then remained constantly above 20,000 individuals (table 3). Older age groups display a similar pattern, while the increase in the number of long-term unemployed is relatively smaller. These statistics indicate a hysteresis effect of the increasing unemployment that followed after autumn 2008.

The 2008–09 economic crisis is further illustrated in table 4 where the number of notified redundancies increased dramatically during 2008 and 2009.

This period also displays a considerable drop in hiring (persons leaving unemployment and obtaining an employment) and new jobs (vacancies that the employers report to the Public Employment Service). There was, however, a quick recovery of hiring and new jobs in 2010 and the following years, which illustrates the fast recovery of the Swedish economy. However, the period of recovery, 2010–13, did not result in lower rates of unemployment and, as discussed above, long-term employment increased. This indicates that structural unemployment increased during this period.

**Table 1. Average duration of unemployment (weeks), by age and gender, 2008–13**

Age group	2008	2009	2010	2011	2012	2013
<b>Men</b>						
15–24	11.8	15.4	18.2	17.3	18.3	17.0
25–54	32.7	33.9	40.1	44.8	44.4	46.4
55–74	46.3	47.7	54.5	64.7	59.9	59.4
<b>Women</b>						
15–24	10.5	13.2	15.5	13.6	13.0	15.0
25–54	27.9	30.6	36.5	36.1	35.4	38.0
55–74	52.6	50.8	51.8	63.7	63.2	61.4

Source: Statistics Sweden (2014), Labour force surveys.

**Table 2. Percentage of total unemployment of 15–74-year-olds, by length of unemployment, 2008–13**

	2008	2009	2010	2011	2012	2013
1 week	10.3	7.4	8.0	8.2	8.3	7.7
2 weeks	7.2	5.2	4.9	4.5	4.8	4.9
3–4 weeks	14.9	11.7	9.7	10.3	10.0	10.1
5–26 weeks	38.1	42.9	38.2	38.1	37.6	37.2
27+ weeks	23.7	28.0	32.6	30.9	30.0	29.5
No inf.	5.7	4.6	6.7	7.9	9.4	10.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Sweden (2014), Labour force surveys.

**Table 3. Number of long-term unemployed (27 weeks or longer) in thousands, by age, 2008–2013**

Age group	2008	2009	2010	2011	2012	2013
15–24	12.5	22.1	27.4	21.8	22.1	23.4
25–54	44.0	69.5	84.6	73.6	74.7	75.7
55–74	15.9	22.8	26.2	25.4	23.9	22.2

Source: Statistics Sweden (2014), Labour force surveys.

The Beveridge curve (figure 7) shows the trade-off between vacancies and unemployment, where a movement along the negatively sloped curve illustrates changes in vacancies and unemployment due to the business cycle. The period 2006–09 obviously involved a movement along curve AA. However, during the

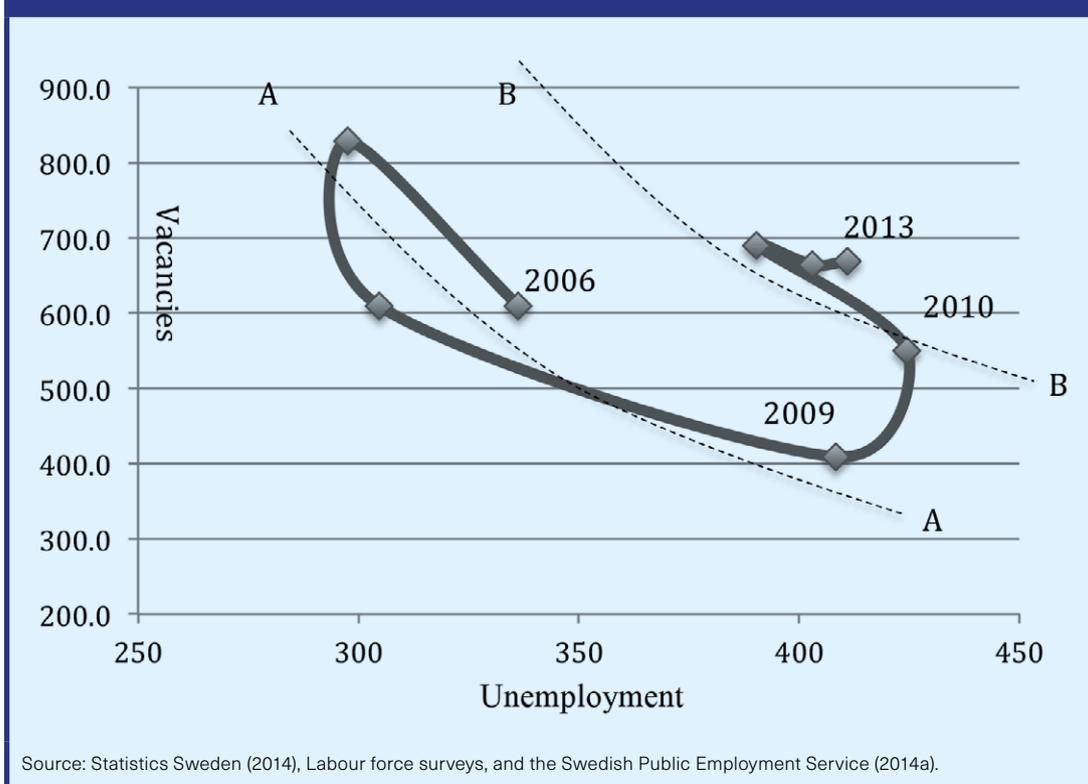
period 2010–13 there is an outward shift of curve BB, with a higher number of vacancies for each level of unemployment, which is probably a result of poorer matching on the labour market and increasing long-term unemployment.

**Table 4. Firing, hiring and new jobs, 2006–13**

	<b>FIRING</b> Notified redundancies, number of persons (thousands)	<b>HIRING</b> Number of persons that were previously registered as unemployed and obtained an employment during the year	<b>NEW JOBS</b> New vacancies that employers report to the PES, with a duration longer than 10 days
2006	36.8	715 596	610 316
2007	30.0	653 253	828 785
2008	95.9	516 591	609 641
2009	115.2	490 583	409 090
2010	44.5	596 339	550 659
2011	46.5	562 400	690 511
2012	71.5	548 666	664 348
2013	58.8	571 635	669 459

Source: The Swedish Public Employment Service (2014a)

**Figure 7. The Swedish Beveridge curve, 2006–13**

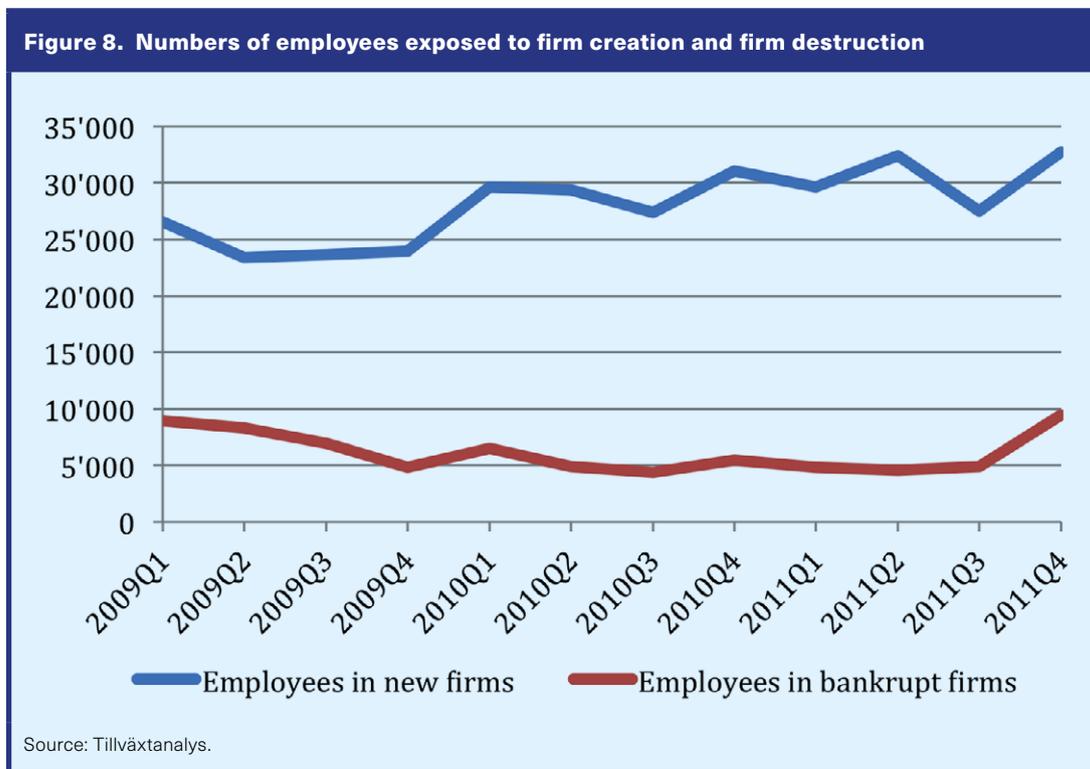


Source: Statistics Sweden (2014), Labour force surveys, and the Swedish Public Employment Service (2014a).

Figure 8 shows that the number of employees in new firms has been increasing during the period after 2009, while the number of employees exposed to firm destruction by bankruptcy has stayed at a fairly constant level.

In summary, the period after the global financial crisis, 2010–13, demonstrates a fast recovery of economic

activities, but despite an increasing employment rate, employment protection has evidently worsened for significant groups in the Swedish labour market. Young employees with low educational attainment are especially exposed to long-term unemployment and temporary employment.



## 2.1 Regulations and public debate

The current Swedish employment protection legislation (EPL) in the 1982 Employment Protection Act<sup>5</sup> is, despite some amendments during the last three decades, essentially intact. The law presumes that, unless otherwise stipulated, an employment contract is open-ended (permanent contract), and applies both to public and to private employers.<sup>6</sup> Both employer and employee may terminate a permanent job, with a minimum period of notice of one month. An employer may dismiss an employee for two reasons: (i) redundancy/shortage of work; and (ii) reasons related to the individual employee, which may involve termination of employment with immediate effect by way of summary dismissal.

Most provisions of Swedish labour market legislation may be, wholly or partly, amended by collective agreements. As the collective agreement coverage reaches around 90 per cent of the employees, collective agreements on issues related to employment protection are essential in order to obtain a complete picture of Swedish EPL.

In cases of collective redundancies, the employer cannot arbitrarily decide who is to be dismissed but must follow a specified order of selection in accordance with seniority (last in–first out).<sup>7</sup> However, a different order of priority may be chosen by local collective agreement. Furthermore, under an amendment in the Act from 2001, in the interest of retaining necessary skills in small businesses, employers (with a maximum of ten employees) may exempt from the procedure of selection for redundancy a maximum of two employees who are of a particular significance to the company.

Nevertheless, the principle of “last in–first out” in the EPL has been debated over the years, as it is believed to discourage employers from hiring workers on a permanent basis. In particular the employers’ organizations often support a more liberal legislation on dismissal as vital for increased employment. However, the current centre-conservative government has not demonstrated any intention to liberalize the EPL with respect to the last in–first out principle, mainly because this rule is seen as a central foundation for the collective agreements and the independent negotiations between the social partners.

Another explanation why the current government did not modify the EPL of open-ended contracts is the relatively liberal and weak regulation of short-term contracts and temporary agency work. In particular, general fixed-term employment (*Allmän visstidsanställning*) can be allowed without any specific reasons. In addition, fixed-term employment is lawful under certain conditions for temporary replacement of absent employees (substitution), seasonal work, and employing persons above 67 years of age. The duration of fixed-term employment is restricted to two years as fixed-term employed and an additional two years as temporary replacement. Thus, after a maximum of four years a fixed-term employment must continue as an open-ended contract.<sup>8</sup>

The use of temporary agency work (TAW) can also be described as liberal as the current legislation does not restrict TAW to certain areas of the labour market. The current act<sup>9</sup> entailed a deregulation compared with the previous act,<sup>10</sup> which included a rule saying that an employee who has given notice to terminate employment and becomes employed by a TAW company may not be employed by his former employer earlier than six months after termination of former employment. This regulation was removed in 2012.

5. Employment Protection Act, *Lagen om anställningskydd SFS 1982:80*.

6. The Employment Protection Act applies to all employees, except managerial executives, employer’s family members, employees who are employed specifically to work in their employers’ household, and individuals employed in certain government-funded active labour market policy schemes.

7. SFS 1982:80, Section 22.

8. SFS 1982:80, Section 5.

9. Act on hiring of temporary agency workers, SFS 2012:854.

10. SFS 1993:440.

Much of the public debate on the EPL concerns the delicate balance between the protected permanent contracts and the relatively unprotected fixed-term employment. Ideally the fixed-term employment should support the employers' demand of flexibility and improve the matching between workers' skills and job requirements. There are, however, increasing concerns that fixed-term employment is gradually eroding the good practice of limited labour law and collective agreements between the social partners, especially when after collective redundancies permanent contracts are replaced by fixed-term employment or TAW. This development is partly connected to the financial crisis in 2009 and the subsequent fall in employment (see figure 1), but is also related to the increasing use of out-sourcing and private provision of public services in transport, health care, etc. When these services are exposed to competition between several providers, the employers may use fixed-term employment as a way of reducing short-term labour costs in order to win the competition.

## 2.2 Working time

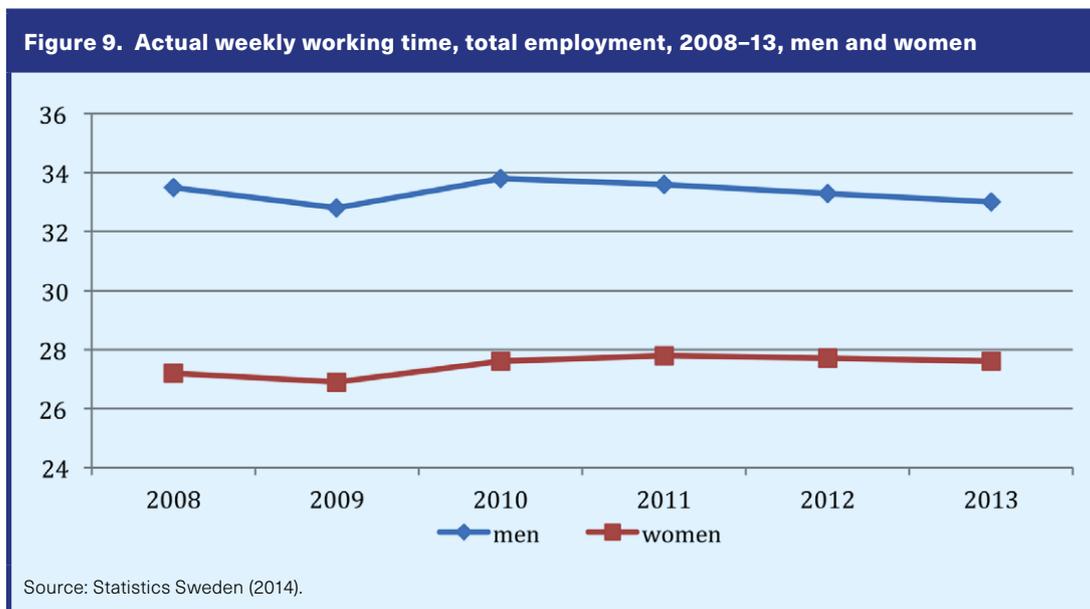
In a manner similar to the employment protection legislation, the Swedish Working Hours Act (*Arbetsstidslagen*, SFS 1982: 673) is flexible and leaves the social partners to negotiate and draw-up industry-wide agreements on working hours. Despite a statutory 40-hour working week, regulated maximum annual overtime and a general prohibition on night work, a considerable number of exceptions and adaptations make allowance for the diversity and specific constraints of the different productive activities. The optional nature of the law has encouraged the social partners to negotiate flexible

working-time arrangements at the industry or firm level. Since the 1970s, working-time policy in Sweden has primarily been seen as a means to create a better balance and conciliation between paid work and other social activities rather than a remedy to imbalances in the labour market. The need for flexibility, reflecting various household situations and working conditions, cannot be satisfied only by standardized or statutory regulations. Hence, according to social partners and public authorities, both economic efficiency and the heterogeneity of individual preferences require more flexibility, that is differentiation and variability in working time patterns.

It should, however, be emphasized that both governments and the social partners have consistently refused to consider an across-the-board reduction of working time as an effective means of combating unemployment. In Sweden there is a broad consensus among stakeholders and decision-makers that unemployment depends on factors other than the length of the standard workweek and there is no clear-cut correlation between countries' level of unemployment and the length of working time. Labour market imbalances have been essentially addressed through employment and active labour market policy.

When looking at data on actual weekly working time (total working hours in relation to number of people in each group) during the period 2008–13 (figure 9), there is basically a constant level of weekly working time with only small deviations during 2009 and 2010.

In contrast to other EU Member States such as France and Germany, economic downturns and structural



changes have seldom been accommodated by public measures aimed at maintaining employment and favouring labour hoarding, for example by reducing working time, short-time working or work-sharing. Traditionally, employment adjustments in Sweden have taken the form of external numerical flexibility, combined with active labour market policy and relatively generous income support.

### 2.3 Non-standard employment

The period 2009–14 reveals a fairly constant distribution of employment between permanent, fixed-term and self-employed (see figure 10). In other words, the 2008 crisis did not lead to an increase in non-standard forms of employment. In contrast to other countries, Sweden did not experience the development of either mini-jobs or zero-hours contracts.



# Unemployment benefits, social insurance and social assistance

3

## 3.1 The unemployment insurance system

The Swedish unemployment insurance (UI) system is a so-called Ghent system based on voluntary membership in UI regimes subsidized by the state. The UI funds are administrated by different trade unions covering different business sectors. Social partners handle the membership fee collection and benefit payments to the unemployed, as well as evaluate and influence public opinion regarding the system.

During 2006 a reform of the UI system was proposed to the parliament by the centre-conservative government and implemented in 2007. The goal of the reform was to achieve a system where it became less “profitable” to be unemployed and more beneficial to search for work, but also to make the UI funds more responsible for the financing of the UIs and reduce governmental grants to the UI system.

Before 2007, the unions’ UI funds contributed approximately 10 per cent of the costs, while 90 per cent was financed through the state budget. The employees’ membership fees were also deductible from income taxation. In addition, increased unemployment within one UI-fund regime caused an increase in the governmental grants.

Since 2007, membership fees have been proportional to the costs of each UI fund, at the same time as the funds’ total contributions have increased by up to approximately 40 per cent of total UI costs. As a result the membership fees increased substantially and became more differentiated between occupational groups. In addition, membership fees are no longer deductible from income taxation. The fees now are connected to the level of unemployment within the UI fund. It is expected that trade unions will be encouraged to take into account what result wage negotiations will bring to the unemployed in terms of opportunities to get a job. This creates an incitement for social partners to argue for wage moderation and thereby increase employment. However, it also creates a great membership fee difference between different UI funds, since unemployment levels are different within different sectors. This might cause so-called adverse selection, where groups with a low risk of becoming unemployed choose not to be members of UI funds, while groups with a high risk of unemployment stay within the system.

As can be seen in table 5, the number of members in the UI funds dropped by almost 500,000 persons between September 2006 and 2008. The UI coverage (individuals receiving UI benefits/number of unemployed)

September	Number of members in UI funds <sup>1</sup>	Number of unemployed <sup>2</sup>	Number of individuals receiving UI benefits <sup>1</sup>	UI coverage (individuals receiving UI benefits / number of unemployed)
2006	3 806.9	290.6	247.5	0.85
2007	3 437.3	269.0	171.9	0.64
2008	3 308.1	287.6	119.2	0.41
2009	3 348.7	404.8	161.3	0.40
2010	3 365.9	390.4	133.0	0.34
2011	3 387.2	348.5	105.0	0.30
2012	3 415.4	382.0	107.0	0.28
2013	3 442.0	381.6	109.6	0.29

1. Source: Swedish Unemployment Insurance Board (2014).

2. Source: Statistics Sweden (2014), Labour force surveys.

consequently declined from 85 per cent in 2006 to 41 per cent in 2008. Despite a slow recovery of the number of members in UI funds, the coverage rate decreased to below 30 per cent in September 2013.

Another part of the reform resulted in a sharpening of the previous work requirement to be eligible for UI. The requirement for being eligible for UI was raised from 70 to 80 hours per month during the previous 12 months, which means individuals today have to have worked at least on a half-time basis during the last 12 months to be eligible for UI. A common requirement is also to be registered as unemployed and to be actively searching for a job at the Swedish Public Employment Service (PES).

The changes in the UI system have generated a debate on whether or not to make the UI system obligatory instead of keeping it voluntary as it is today. However, the social partners involved do not encourage an obligatory UI system. The government is also hesitating on whether or not the obligatory UI is the solution even though this was formerly their position.

The current UI benefits consist of two parts: the income-related benefit and the basic benefit. The *income-related benefit* allows the employee to receive 80 per cent of the previous salary, but not more than SEK 680 per day (five days per week). In cases where the unemployed person does not qualify for the income-related benefit or if they have no membership in a UI regime, they can apply for a *basic benefit*. The maximum basic benefit is SEK 320 per day. The worker has to be over 20 years old and registered as unemployed and actively seeking employment.

The benefit period has been restricted to 300 days since 2007. In addition, the replacement level for the income-related benefit is gradually lower the longer the spell of unemployment. As of 2 July 2007, the unemployment benefit level became 80 per cent from day one until day 200. Since 5 March 2007, the unemployment benefit level has been 70 per cent from day 201. The maximum benefit period is a total of 300 days, with an exception for parents with children under 18 years old, who obtain an additional 150 days. The opportunity to be granted a prolonged benefit period and add another 300 days ended on 2 July 2007. After 300 days the unemployed enter *the job and development guarantee programme* with coaching, education and activities to help and motivate

them to find a new job. If the jobseeker has previously had the right to income-related UI benefits, they will receive 65 per cent of their former salary; if not, the individual will receive the minimum compensation (*activity support*) of SEK 223 per day.

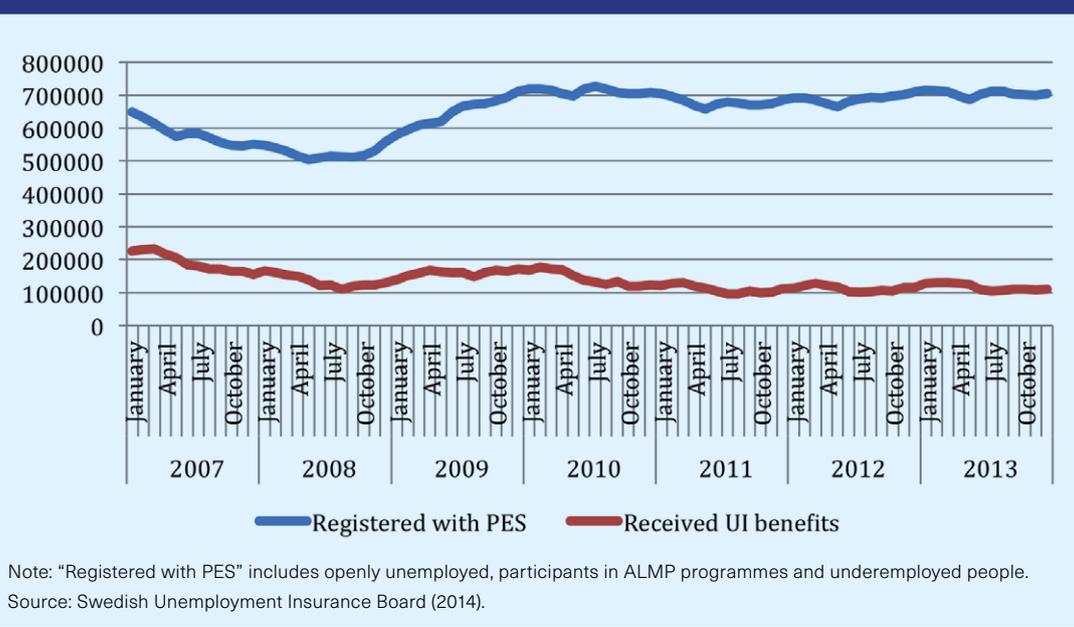
In summary, the period after the global financial crisis, 2010–13, demonstrates a fast recovery of economic activities, but despite an increasing employment rate, employment protection has evidently worsened for significant groups in the Swedish labour market. Young employees with low educational attainment are especially exposed to long-term unemployment, temporary employment and a low coverage of income-related UI benefits.

### 3.2 Replacement rates

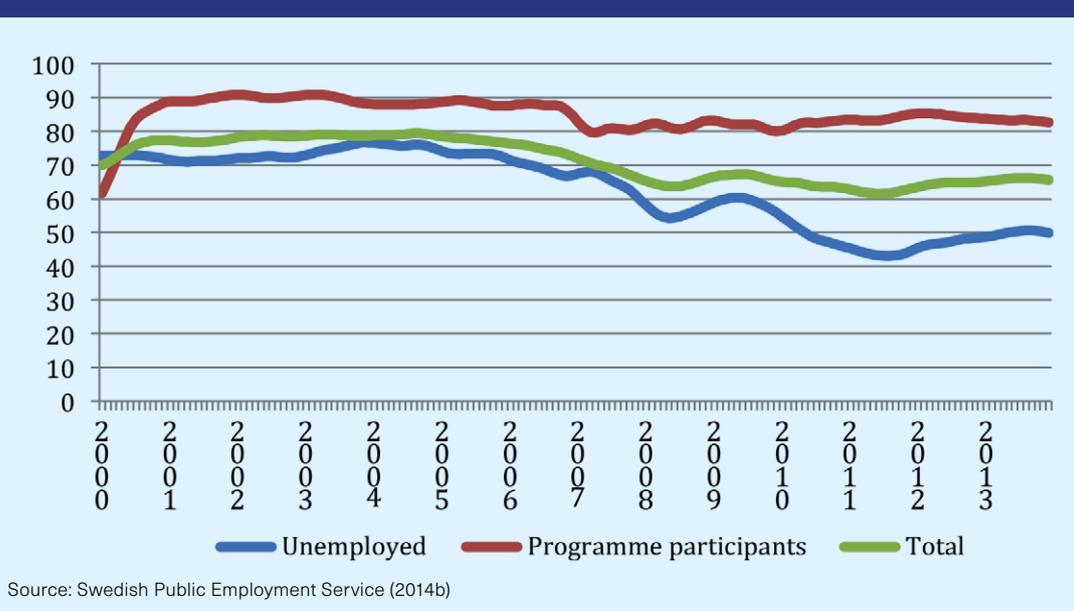
Figure 11 shows statistics on the total number of individuals who were registered with the PES per month during the period 2007–13. Those who are registered with the PES include unemployed persons who are ready to start a new job with short notice, as well as participants in programmes within active labour market policy (ALMP) and underemployed people that work part-time and are looking for a job on a full-time basis. From October 2008 there has been an increasing number of people registered with the PES, reaching peaks just above 700,000 individuals during 2010. The number of registered people has since then remained constant at around 700,000 individuals, which is an indication of the increasing long-term unemployment mentioned in section 1.2. On the other hand, the number of recipients of UI benefits has declined to a level of around 100,000 individuals, which is about half of the number of recipients before 2007 when the more restrictive rules on UI took effect.

Many of the unemployed participate in ALMP programmes and receive so-called *activity support* instead of being unemployed and receiving benefits from the UI. The reduced proportion of UI benefits was thus partially offset by increased participation in programmes and reception of activity support. According to figure 12, the replacement rate among the unemployed decreased by about 22 percentage points between January 2007 and January 2011, while the corresponding decrease in replacement rate for both the unemployed and programme participants (total) was only 9 percentage points.

**Figure 11. Number of people registered with the PES and who received UI benefits, 2007–13**



**Figure 12. Replacement rate for unemployed, participants in ALMP programmes and in total, 2000–13**



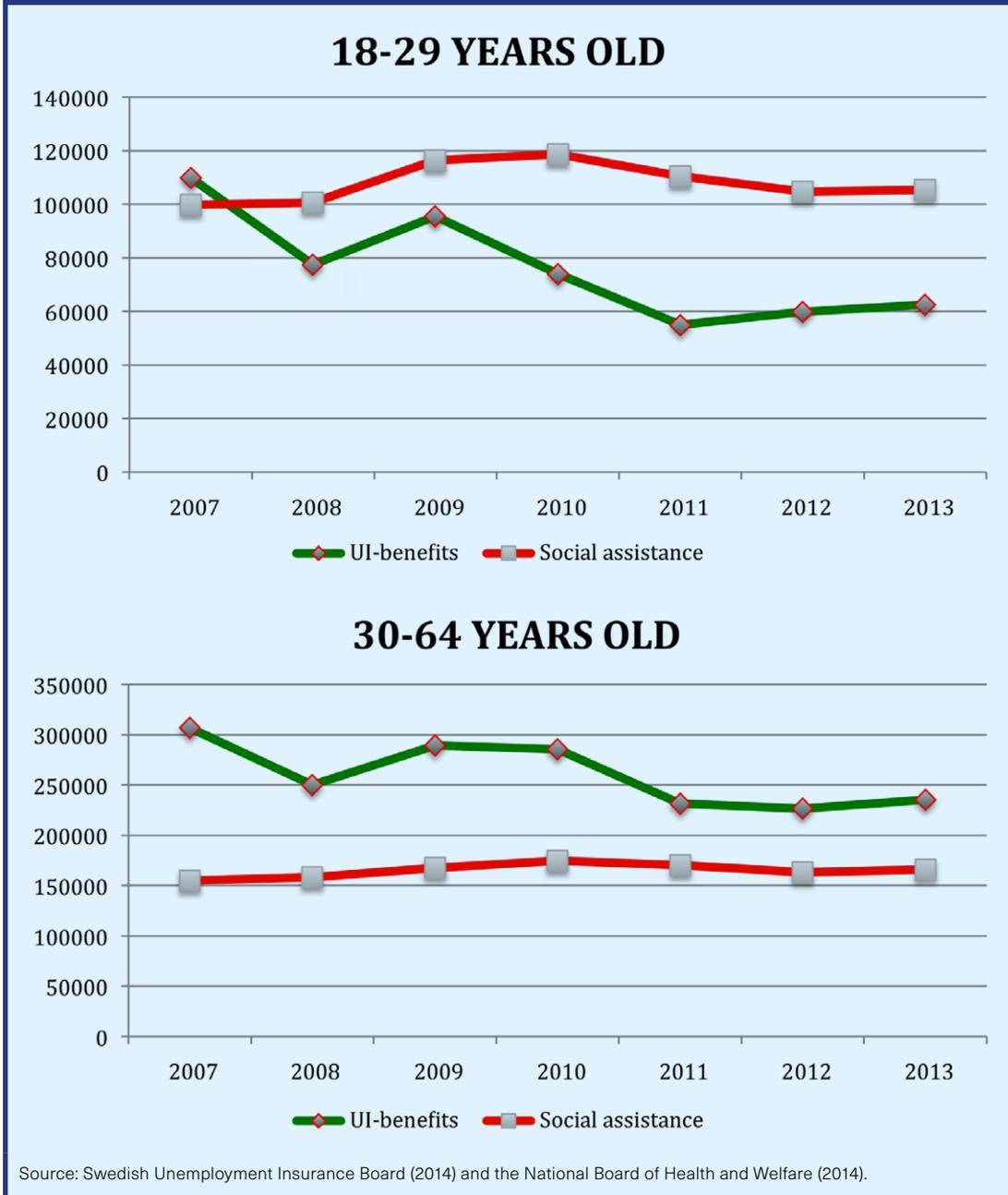
### 3.3 Social welfare benefits

Unemployed persons who are not covered by UI because they do not satisfy work requirements can instead obtain social welfare benefits, which are administrated and financed by the local municipalities. Since 1982, the law has ensured that all Swedish and foreign citizens living in Sweden have the right to obtain social benefits in the absence of other means of economic support, which also includes their own savings and valuable assets. The Social Service Act also states that recipients of social assistance who are able to work should search for jobs

and participate in ALMP. Since 1998, local municipalities have required that young people participate in job training or educational programmes in order to receive social benefits.

The decreasing number of UI beneficiaries has been accompanied by an increasing number of people in need of social welfare benefits. This trend is especially pronounced for younger people between 18 and 30 years of age. Figure 13 shows that there was a large decrease in the number of people 18–29 years old receiving UI benefits between 2009 and 2010, while the number of

**Figure 13. Number of people receiving UI benefits and social assistance, 18–29 years and 30–64 years, 2007–13**



people with social assistance was almost constant (an increase of around 2,000 individuals). As a comparison, the decrease of UI benefits has been less pronounced in the age interval 30 years and above, and the number of UI beneficiaries is persistently higher than the number of people receiving social assistance.

### 3.4 Older workers

Similar to many other industrialized countries, over the last half-century Sweden has experienced a clear shortening of working life due principally to later entry into

the labour market (lengthening of educational period) and earlier exit from the labour market at the same time. However, the employment rate among senior workers (55–64 years old) is, by international standards, high, namely 76.9 per cent for Swedish men and 70.3 per cent for Swedish women in 2013 (Eurostat, 2014). The average exit age from the labour market is also one of the highest in the EU and there is, since the turn of the century, a clear tendency of a postponement of exit from the labour market. The average exit age from the labour force rose by more than two years between 2001 and 2010, from 62.1 to 64.4 years old.

Except for some reduction of payroll taxes for workers older than 65 years, no explicit measures to increase the statutory retirement age and favour the employment of older workers have been undertaken during recent years. The Swedish pension system, which was reformed at the turn of the century and fully implemented in 2004, consists of two earnings-related components based on contributions from lifetime earnings, and supplemented by a guaranteed minimum pension for those with low income or no income from work. The earnings-related components cannot be drawn before the age of 61, and after the age of 67 the employment protection legislation is no longer binding. This fairly new pension

system probably created strong incentives to postpone the decision to withdraw from the labour market and work longer, as there is a reduction of pension benefits in the case of early retirement. On the other hand, a person obtains higher benefits the longer he or she continues to work. However, the employment protection regulations imply that practically all employment protection for employees who are 67 years old vanish: the employer can terminate the employment contract with one month's notice, without any legally binding reasons. In addition, persons who are 67 years and older can be employed on a fixed-term contract, without any official motivations.

### 4.1 The wage formation process

The Swedish wage formation process has historically been based on a highly centralized and coordinated bargaining system. From 1955 to 1983 the so-called *solidarity wage policy* resulted in a wage norm based on equal pay for equal work irrespective of sector, firms' profitability and individual performance as well as promotion of productivity-enhancing structural changes through the closure of unproductive plants. In 1983, Sweden experienced a breakdown of two decades of centralized and coordinated bargaining and national inter-industry agreements: from this date, collective bargaining was carried out at two levels: industry/sector and enterprise/organization. However, high wage inflation and the explosion of unemployment during the dramatic recession of the early 1990s had a decisive impact on the emergence of new compromises on wage formation. These new compromises in both the private and public sectors implied a clear tendency to re-coordinate the wage formation system at the industry and sector level.

In short, the spirit of these new agreements, still in force today, was to re-establish *the pace-setting role* of the sector exposed to international competition. In other words, and in contrast to the mid-1970s, public sector wages since the second half of the 1990s do not have any signal effect on private sector wages. Against this background and correcting for structural effects, such as the change in the age, gender, skill and occupational composition of the labour force, during the past decade Sweden has experienced a clear convergence of wage growth across sectors (see figure 14a).

In addition to the establishment of new procedural rules aimed at ensuring industrial peace and a re-coordination of wage bargaining at the industry sector level, since the second half of the 1990s there has also been a clear tendency towards the individualization and decentralization of wage-setting at the local level, in both the private and public sectors. In other words, the abovementioned tendency to re-coordinate collective bargaining at the industry level should not be seen

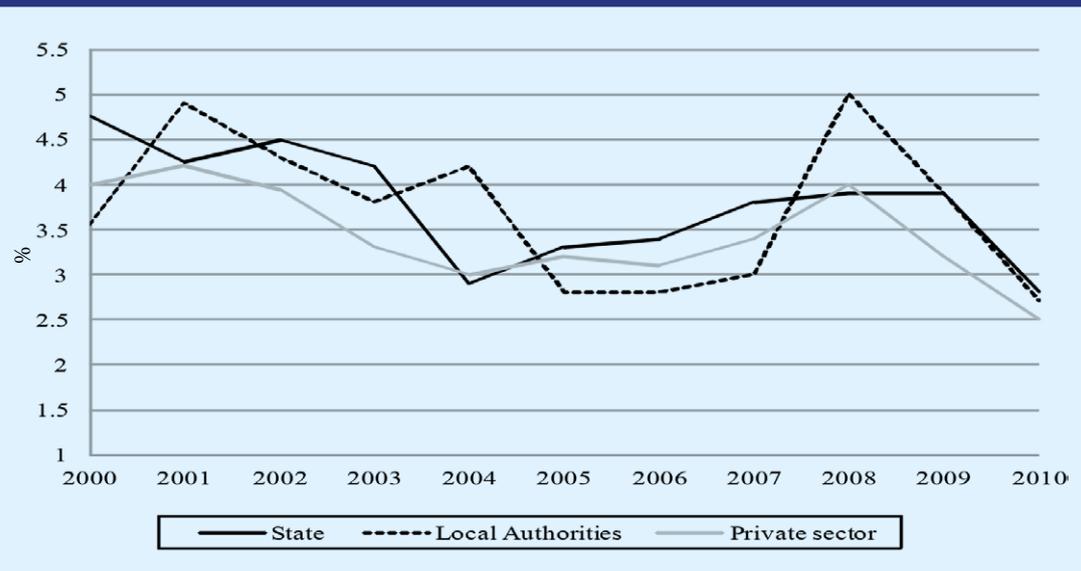
as a weakening of the role played by enterprise-level/organization-level negotiations. Wage negotiations at the local level play a central and growing role in the setting of wages, as well as in the terms and conditions of employment. In fact, enterprise/organization-level bargaining has tended to gather strength in the past decade, particularly in the public sector. The wages of a large majority of public sector employees are now set locally and largely individualized through performance monitoring, in strong contrast to the previous wage-scale system based on seniority that was dominant up to the mid-1990s.

The significant changes in the orientation of monetary policy, namely the complete autonomy of the Swedish Central Bank and the introduction of a clear inflation target (2 per cent per year, within a range of plus or minus 1 per cent) in the mid-1990s, in connection with the abovementioned re-coordination mechanisms in wage-setting have without a doubt had an impact on wage formation and wage developments. The social partners in both the private and the public sector were aware that wage developments not compatible with productivity growth and macroeconomic balance would not, as previously, be accommodated with devaluations but lead to the implementation of a restrictive monetary policy (interest rate increase) with a potential negative impact on employment and unemployment. It may be argued that this reorientation of macroeconomic policy has played a crucial role in wage development as a disciplinary device against excessive wage increases and wage inflation and has actually led to wage moderation (but still real wage increases), rising employment and positive development in the current account.

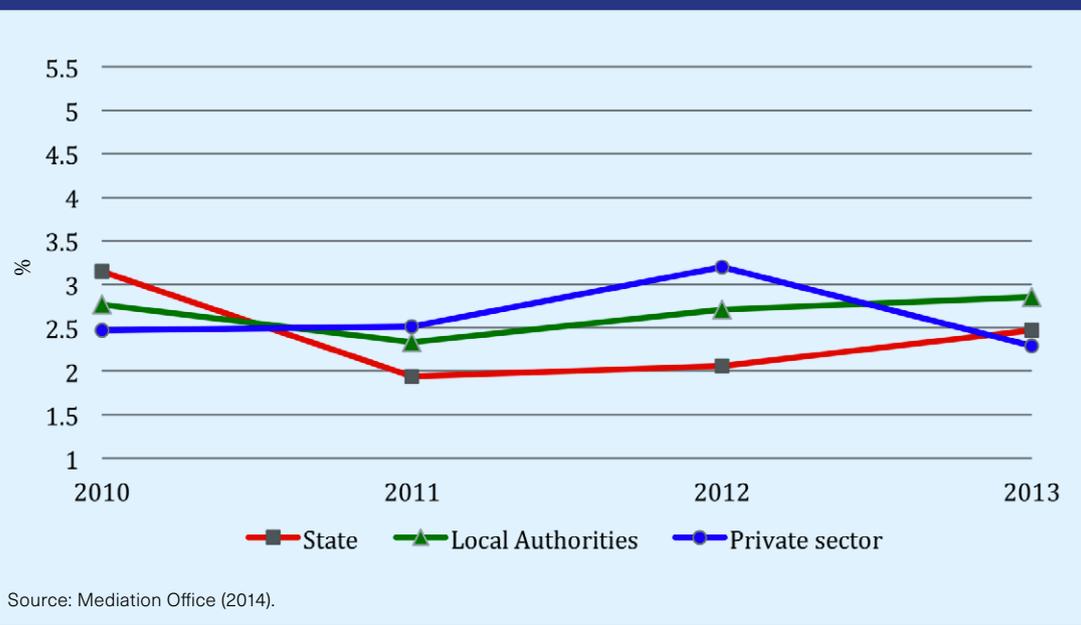
### 4.2 Wage formation during the crisis

The moderate outcome in terms of negotiated pay settlements during the last rounds of collective bargaining (2009–13), coupled with the weak labour market, imply that wages rose moderately in both the private and the public sector during these four years, with a declining differential across sectors at the end of the period. The

**Figure 14a. Wage developments by broad sectors, 2000–10**



**Figure 14b. Wage developments by broad sectors, 2010–13**



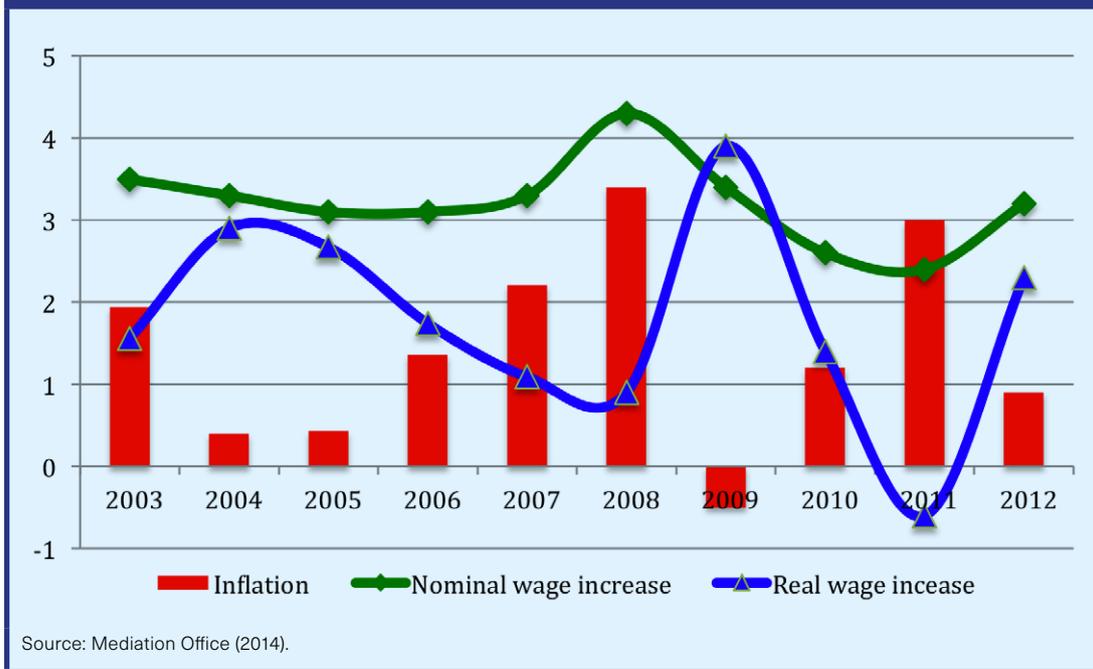
crisis also had no direct impact on industrial relations and the period 2008–13 has been characterized by industrial peace, in contrast with the situation in the second half of the 1980s and also during the previous recession (1992–95).

According to short-term wage statistics from the Swedish Mediation Office (2014), the rate of wage increases in 2009 and 2010 was 3.3 per cent and 2.5 per cent, respectively, for the economy as a whole and was significantly below those recorded in 2008 in both the private and the public sectors (see Figure 14a). These developments illustrate well the extent of Swedish negotiated wage flexibility during a recession, and the willingness of the two sides of industry to equally share the burden of the

crisis and limit the potential impact of the recession on employment, wage structure and inequality. Figure 14b further illustrates the stable nominal wage increase during the years 2010–13, where wage agreements were mainly concluded in the 2.5–3.0 per cent range.

The global development of nominal and real wage increases during the period 2003–12 is demonstrated in figure 15. (Note that real wage increase is approximately equal to nominal wage increase minus inflation.) The wage agreements in 2009 actually resulted in a high real wage increase due to the fact that the inflation rate was negative. It should also be noted that 2011 resulted in a negative real wage increase for the first time since 1993, which mostly could be explained by an unexpectedly

Figure 15. Nominal and real wage increases (per cent), 2003–12



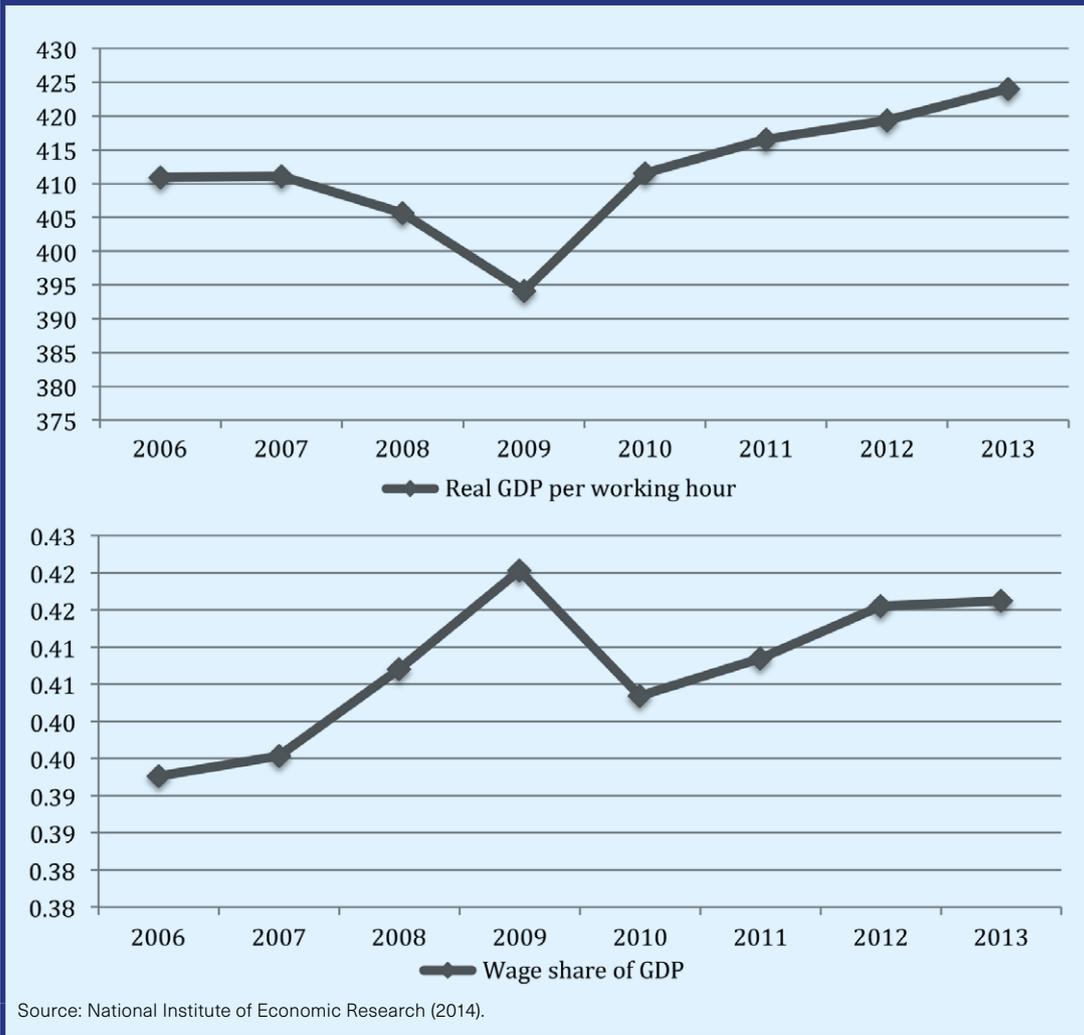
high inflation. The period after 2009 is also characterized by increasing labour productivity (real GDP per working hour) and a higher wage share of GDP (figure 16), which implies that increased productivity contributed to higher wage earnings.

The relatively low level of unemployment in Sweden compared with other EU Member States can thus broadly be explained by moderate wage agreement and increasing worker productivity, coupled with an increasing demand on the Swedish export markets and a fiscal consolidation, allowing targeted stimulation measures by the government. This relatively favourable development is illustrated in figure 17, where decreasing worker productivity in 2007–09 was followed by increasing productivity in 2009–10 and a smaller increase in real wages than in productivity

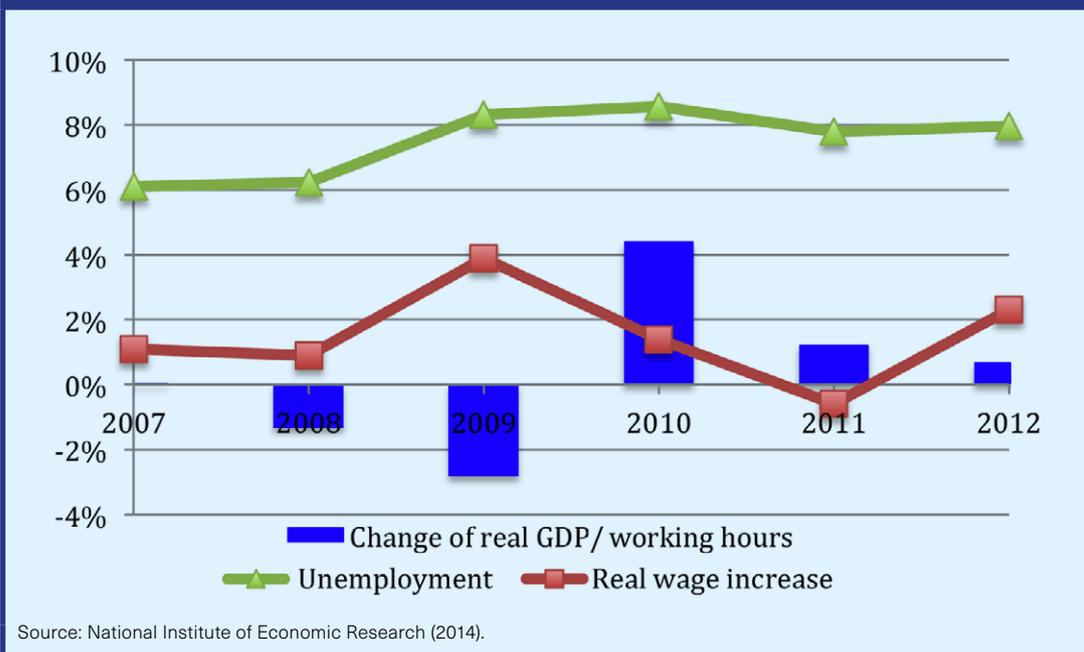
in 2010–11 which increased aggregate profits and decreased unemployment.

The period during and after the crisis is also characterized by a stable dispersion of the wage distribution. The marked tendency towards decentralization, differentiation and individualization of wages and terms and conditions of employment has been particularly marketed for white-collar employees within both the public (state and county councils) and private sectors. As also shown by figure 18, wage dispersion at municipality level and blue-collar employees within the private sector has been significantly lower. Part of this stability in wage dispersion might be ascribed to the abovementioned more limited individualization in wage formation among blue collar workers and low-skilled/educated workers in the municipal sector.

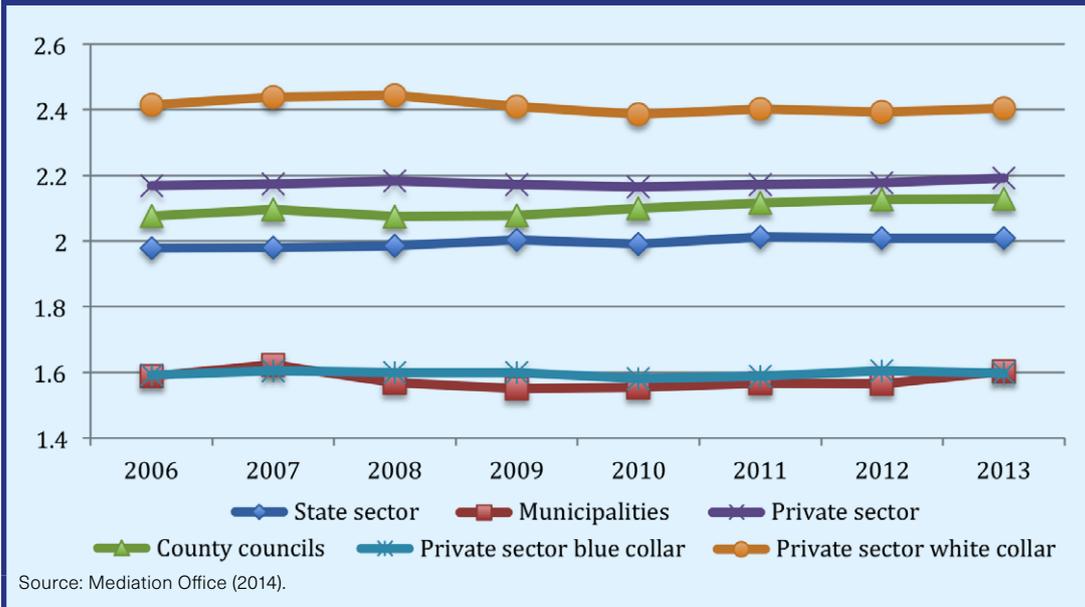
**Figure 16. Real GDP per working hour (Swedish kronor, 2013) and wage earnings as share of GDP, 2006–13**



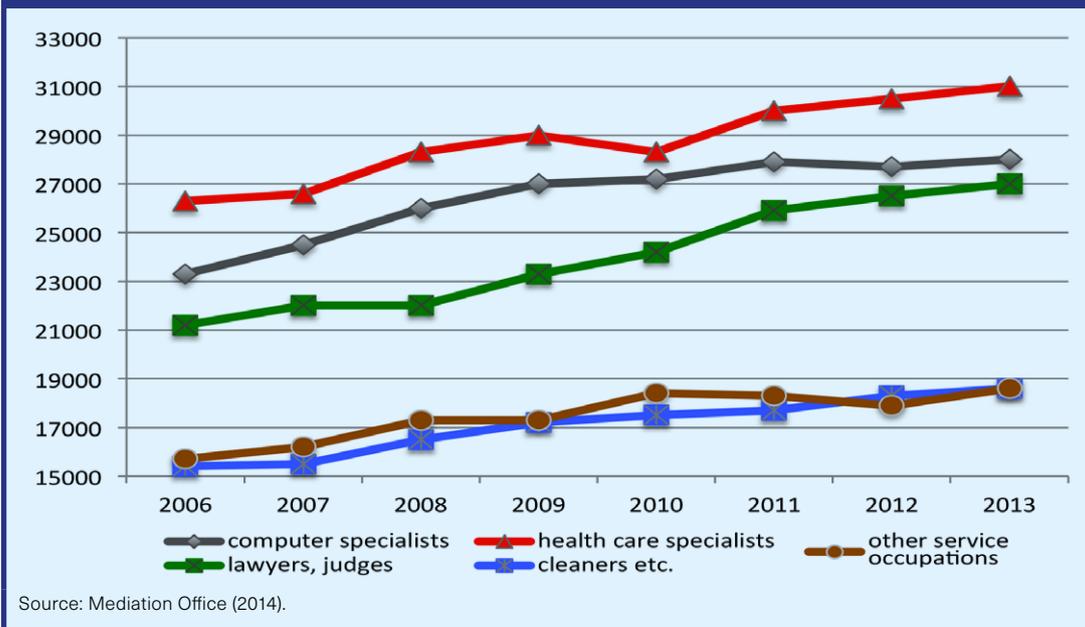
**Figure 17. Growth rates of real GDP/ working hours and real wages, compared with percentage of unemployment, 2007-2012**



**Figure 18. Development of wage dispersion (p90/p10) in the private, state and local municipalities and county councils, 2006–13**



**Figure 19. Nominal wage first deciles of the wage distribution for a selection of occupations, 2006–13**



### 4.3 Minimum wages

Sweden has no statutory minimum wage, but many collective agreements stipulate wage floors/minimum wages. A way to assess the impact of the crisis on the minimum wage is to look at the first decile of the wage distribution for a selection of occupations (figure 19). The statistics reveal that low wages increased in relative terms by 18–20 per cent in all occupations between 2006 and 2013. However, during the period 2010–13 there was almost no wage increase in *other service occupations*,

while for example *health care specialists* and *lawyers* increased their tenth percentile by around 10 per cent. This suggests that low-paid/low-skill occupations have had a basically constant level of wages during the period after the global financial crisis, while wages in the lower tail of the wage distribution have been increasing among high-skilled occupations.

Skedinger (2011) examined the effects of increasing real minimum wages on separations and hours worked in Swedish retail during 2001–05. The analysis suggests

that separations do increase as minimum wages increase, and in addition, there seems to be a substitution between workers in response to changes in minimum wages in retail, as separation actually decreases for workers with higher wages who were not affected by the increased minimum wages. However, as job losses due to increased minimum wages were concentrated among low-paid part-time workers, the overall decline in employment may be exaggerated when only worker flow is examined and hours worked is disregarded. Skedinger's result suggests that wage floors might have slowed down employment creation in the low-paid segment of the labour market. It should, however, be stressed that Skedinger's study was conducted during an economic boom (2001–05), and may not extend to the period 2010–12.

The Swedish government adopted two payroll tax reforms in 2007 and 2009 to increase labour demand for young workers (18–25 years).<sup>11</sup> Despite some critical assessments (see for example Skedinger, 2012) of the efficiency of the reform, the reduction of payroll tax has been continued. In order to ease young people's transition from school to working life and to safeguard long-term skills supply for companies, the social partner in several collective agreement areas has concluded so-called work introduction agreements. These agreements offer young people lacking professional experience coaching and training during work time.<sup>12</sup>

- 
11. The payroll tax deduction for employees in this age group was relatively high – 11.1 percentage points after the first reform and 15.9 percentage points after the second. The cuts cost the Swedish government around 1.6 billion euros a year in lost revenue.
  12. The hours spent on training or coaching are not included in the calculation of salary.

# Active labour market policies (ALMPs)

5

## 5.1 Supply-oriented measures

Active labour market policy has recurrently played a vital role in Swedish stabilization policies. The preference for the principle of employment promotion (work-first principle) has predominated over benefit options and passive measures for the unemployed. In order to counteract the rise of unemployment, in particular long-term unemployment, the number of participants in the various ALMP programmes has been gradually increased (see table 6 below). The rise in the level of appropriation and the allocation of resources in the various ALMP

programmes also attests to a reinforcement of ALMP programmes towards labour-supply-oriented matching measures (in particular a greater monitoring of job-search and activation measures administrated by the PES), targeted measures towards people with a weak attachment to the labour market (young drop-outs, foreign-born and disabled people), and towards long-term unemployed jobseekers (Box 1). In the aftermath of the global economic crisis the Swedish government also increased the number of places in work experience, trainee schemes and labour market training.

### Box 1. The content of the ALMP programmes in Sweden 2008–13

**Special measures for the disabled.** The aim is to support people with disabilities to be able to work and strengthen their opportunities to get a job or keep a current job. The measures include *wage subsidies* for employers who hire a person with a disability, *sheltered employment* for persons that cannot obtain jobs in the regular labour market, and various types of *support for assistive technology in the workplace and personal assistants*. The absolute volumes of these programmes remained fairly constant at around 70,000 participants per year during the period 2008–13.

**Employment support** stimulates employment of persons with difficulties in finding a job in the regular labour market. The measures include *employment support for persons with a background of long-term sickness absence* and various types of *employment support for long-term unemployed* by reducing the employers' wage costs.

**New-start jobs** is a special form of employment support, which was introduced in 2007. In contrast to other forms of employment support, it is administrated by abolishing the employers' costs of social fees for a limited period. There was an increasing trend of new-start jobs during the period 2008–13.

**Preparatory actions and activations** are individually adapted measures to guide, rehabilitate, or inform and prepare persons for a new programme or job. The measures include various types of *extended assessment and guidance*, *labour market training for newly arrived immigrants*, and *complementary training of persons without any grade from the primary or secondary schools*.

**Labour market training.** The purpose is to facilitate people to get or keep a job and to hinder emerging labour shortages. The measures include various *occupational*

*trainings* that are procured by the PES or other authorities and directed towards occupations with a short supply of workers in the local labour market.

**Work experience.** The aim is to obtain work experience in order to stay in the labour market or be able to enter the labour market. The measures can be directed towards unemployed persons with a previous educational attainment in Sweden as well as newly arrived immigrants. In the latter case it is often combined with labour market training for immigrants.

**Youth programmes** help unemployed persons 16–25 years old to obtain early work experience or training. Since 2007 the measures have been organized within the *job-guarantee for youths* which is implemented after 90 days of unemployment. In addition, in 2007 and 2009, the Swedish employer-paid payroll tax was cut on a large scale for young workers (16–25 years), substantially reducing labour costs for this group.

**Start-up of business.** Pay for the livelihood of persons that are judged to have good prospects to start a business and obtain a sustainable employment. The support is normally restricted to 6 months.

**Job and development guarantee.** Since 2007, persons who have been employed for a long period have been able to obtain individually adapted measures to obtain a job. The measures are normally introduced after 300 days of unemployment benefits. The measures progress in three phases, where phase one includes coaching and job-search activities for 150 days, phase two includes work experience up to 450 days, and in phase three the unemployed are directed to employment which is mediated by the PES for a maximum period of two years.

Source: Swedish Public Employment Service (2014b) and IFAU (2014).

**Table 6. Participants in ALMP programmes, 2008–13, percentage**

	2008	2009	2010	2011	2012	2013
Special measures for disabled	41	31	24	24	24	23
Employment support	8	3	2	2	2	4
New-start jobs	9	9	12	15	14	13
Preparatory actions and activations	6	6	7	8	9	11
Labour market training	3	2	2	2	2	2
Work experience	1	4	6	2	2	2
Youth programme	6	16	16	13	13	12
Start-up of business	1	1	2	2	1	1
Job and development guarantee	24	27	27	31	31	31
Total number of participants	171,300	213,500	286,410	294,300	303,000	318,200

Source: Swedish Public Employment Service (2014b).

Most of the ALMP measures implemented during the period 2011–13 are targeted towards people with a weak attachment to the labour market and towards long-term unemployed jobseekers. As a continuation of previous policy in this area, the government has emphasized the role of the Swedish PES in easing the matching process in the labour market, in particular a greater monitoring of job-search and activation measures, as well as additional resources to the PES (increase of the staffing ratio). To improve the efficiency of the monitoring process, special funds have been set aside to increase the number of individual meetings between case-workers and jobseekers. In order to help employment officers to identify early those jobseekers with higher risk of becoming long-term unemployed, the PES is currently introducing a system of statistical profiling.

Regarding young unemployed people, particularly those who have not completed upper secondary school, the government priorities have been to increase the number of participants in previously established youth programmes (such as Youth Guarantee). The government has also put in more resources for work experience placement and coaching, and enhanced incentives for young people lacking a compulsory or upper secondary education to complete their studies, as well as to further increase the number of places in vocational training. As mentioned above, the Swedish government adopted two payroll tax reforms in 2007 and 2009 to increase labour demand for young workers (18–25 years).

## 5.2 Immigrants

Another identified challenge is to improve the integration of immigrants into the labour market and take appropriate measures to increase labour supply of the foreign born (in particular female immigrants), through both labour market and educational policy but also anti-discrimination measures, particularly regarding recruitment of non-natives. People with a foreign background have significantly lower employment rates and higher unemployment than Swedish natives, even though considerable variation exists within the various immigrant groups. Young people of foreign background also have a significantly higher unemployment rate compared with their native counterparts. The lowering of unemployment among people with a foreign background has therefore been given high priority. Against this background the government implemented the *Establishment reform* for newly arrived immigrants and asylum-seekers and their families in December 2010. In addition to traditional wage subsidies targeted to the foreign born, the PES has since then also been given a clearer role and a coordinating responsibility for speeding up the establishment of newly arrived people into the labour market. The main objective of the reform is to improve and speed up the labour market integration of immigrants by shifting responsibility for activation measures from the municipalities to the PES. The PES has the overall responsibility to coordinate various measures and has to draw up an individual introduction plan including at least Swedish for Immigrants (SFI), civic orientation and employment preparation activities.

Within the framework of the Establishment reforms, the government has emphasized workplace-based measures by introducing a ‘practical base year’ consisting of a combination of on-the-job training and SFI. The government has also raised the compensation given to employers organizing these workplace-based arrangements, in particular for foreign-born people in need of more assistance/supervision. Furthermore, the government has extended the workplace-based measures to the public sector. From 2011 onwards the Establishment reform has been broadened to cover more newly arrived refugees, and the PES has therefore received additional resources. To encourage employers to recruit newly arrived immigrants, amendments have also been made to the already implemented wage subsidy for foreign-born (*Instegjobb*), with the period of subsidy extended from six to twelve months.<sup>13</sup> The change in regulation took effect in 2013. Nowadays, it is also possible to renew a subsidized period of employment without the requirement of having successfully passed the examination of SFI.

### 5.3 Educational reforms

In order to better meet labour market and skill needs and improve the quality of the educational and training system, several educational reforms have been undertaken since the mid-2000s, giving more emphasis to vocational training and apprenticeship programmes. A major upper secondary reform was begun in autumn 2011 with an increased emphasis on vocationally oriented subjects in high school. In order to better prepare students for working life, a permanent apprenticeship programme was introduced in 2011 as a standard course of vocational studies in upper secondary school, indicating the intention of the government to move from mainly school-based occupational training regimes towards a vocational training system with a stronger component of workplace-based training. Since the reforms, it is no longer compulsory for pupils taking vocational programmes to study so as to meet entry requirements for higher education. At the same time, everyone still has the option of completing the studies required for entry to higher education. Measures to improve workplace-based training and the skills of vocational teachers have been implemented. The Swedish government also took several measures to enhance the quality of vocational training through closer cooperation, at the local level, between high-school authorities

13. The subsidy amounts to 80 per cent of labour cost but cannot exceed SEK 800 per day.

and social partners (employers, unions and so on). More recently, in order to favour the development of a dual system in Sweden, in 2013 the government decided to strengthen the apprenticeship training programmes by permanently extending the provider allowances for apprentices and raising the part of the allowance paid to employers.

### 5.4 Life-long learning

Life-long learning (LLL) has a long tradition in Sweden and has expanded markedly over recent decades. LLL is an integrated part of the Swedish educational and employment system. One feature of the Swedish LLL system is the extensive opportunity to complete or enhance educational attainment after leaving initial education, either through adult education or through various training courses within the framework of labour market policy. The government has increased the number of places in adult vocational training, apprenticeship training for adults, vocational higher education, folk high schools (institutions for adult education that generally do not grant academic degrees), and universities and other higher education institutions. The government will also continue its effort regarding adult education for the period 2014–15. The strengthening of the apprenticeship training programmes by permanently extending the provider allowances for apprentices paid to employers also took effect in January 2013. Starting in 2010, a so-called folk high-school initiative was implemented to motivate young people and those who have not completed their compulsory or upper secondary school education to come back to school. A two-year extension of the programme was decided in 2012 to provide additional places in folk high schools.

### 5.5 Evaluation studies

Regarding the efficiency aspects, available Swedish evidence (see for example Forslund et al. 2011; SOU, 2011) show that vocational training programmes and well-targeted ALMP measures closer to ordinary jobs (targeted wage subsidies, work experience schemes) significantly improve the likelihood of speeding up the transition to regular employment and reduce unemployment duration. According to these studies, intensified job search assistance, in particular combined with increased control/monitoring, has a positive effect on employment. The use of profiling methods, recently introduced in the PES, may also be a good instrument for early identification of jobseekers at risk of becoming long-term unemployed. Box 2 reviews the

main evaluations of programmes that were conducted during the period 2008–13.

Regarding specific measures towards newly arrived refugees, the continuation and re-enforcement of the so-called 2010 Establishment reform, including measures to strengthen personal incentives for taking up jobs and providing adequate individualized guidance and increased opportunities for workplace-based job training and practice, is well in line with the general policy of the Swedish government to increase labour supply and the labour market integration of vulnerable groups. No formal evaluation has been conducted and it is therefore too early to assess the efficiency of the measures implemented. According to the government, the PES engages the target group (newly arrived

immigrants) for the introductory assignment much earlier than previously. A large majority of the newly arrived people have received an introduction plan. Of those receiving an introduction plan, 95 per cent have participated in some form of labour market programme or labour preparation activity, 79 per cent participated in SFI, and 39 per cent took part in civic orientation activities.

As previously mentioned, well-targeted measures and measures closer to ordinary jobs significantly improve the likelihood of securing regular employment and reducing unemployment duration. Against this background the proposal to extend the duration of the already implemented wage subsidy targeted at newly arrived immigrants (*Insteigsjobb*) seems to be

## Box 2. Summary of evaluations of the Swedish ALMP programmes (Table 6)

**Special measures for the disabled.** Angelov and Eliason (2014) estimate the effects of wage subsidies, sheltered public employment, and employment at Samhall (a Swedish state-owned company whose aim is to provide employment for persons with disabilities) on the labour market outcomes (measures of income, employment status, unsubsidized employment status, and disability insurance) of occupationally disabled jobseekers. The control group consists of individuals who are eligible for the targeted labour market programmes (LMPs) but have not (yet) received treatment. Their results show large positive effects of all LMPs on labour income, disposable income and employment, and the effects are relatively persistent. However, consistent with the previous empirical literature, they find considerable lock-in effects, measured by a decrease in unsubsidized employment. Furthermore, the yearly amounts of disability insurance paid decrease as a result of programme participation, and the decrease becomes more pronounced with time since treatment start. The effects on disability insurance prevalence are heterogeneous, both with respect to the different LMPs and to gender.

**New-start jobs.** Sjögren and Vikström (2013) study effects of both subsidy rate and subsidy duration. They find that doubling of the subsidy rate has a substantial impact on job-finding rates, while doubled subsidy duration has no such effect. They find the opposite pattern when they study the effects on the probability of staying employed for those who find subsidized employment. In addition, the positive employment effect of doubling the subsidy duration persists after the expiry of the employment subsidies.

**Preparatory actions and activations.** Lagerström (2011) estimates the effect of caseworkers on jobseekers' future employment rates, earnings, and wages. To take into account that the average characteristics of the unemployed can vary between caseworkers, the author only uses information from local employment offices that randomly allocate caseworkers to jobseekers. The results indicate that caseworkers' counseling abilities do have a significant positive effect on the jobseekers' subsequent employment and earnings. For example, the probability of being employed within a year is about 13 per cent higher if the caseworkers' counseling ability is one standard deviation higher in

the distribution of caseworkers' ability. A distinctive feature of a successful caseworker is that they assist in job search rather than assigning their jobseekers to various training programmes.

**Labour market training.** Forslund, Fredriksson and Vikström (2011) find it reasonable to rely more heavily on certain kinds of programmes in a recession. The argument is tied to the varying size of the lock-in effect in times of boom and recession. If programmes with relatively large lock-in effects should ever be used, they should be used in a downturn. The reason is simply that the cost of forgoing search time is lower in a recession. They compare an on-the-job training scheme with (traditional) labor market training and find that labor market training is relatively more effective in recession. This result is consistent with larger lock-in effects for labor market training.

**Work experience.** Forslund, Liljeberg and von Trott zu Soltz (2013) have estimated effects of job practice for participants entering the programme between 1999 and 2006. On average the expected time to find work for the unemployed participants was reduced by around 6 per cent over a 700-day follow-up horizon counted from the programme start date. Participation also gave rise to higher future labour income and a reduction in social assistance take-up. When they compared job practice with labour market training, they discovered somewhat paradoxically that job practice participants would have gained more from training, while the training participants would have gained equally much from both programmes. A reshuffling of participants between the programmes, hence, would have been associated with higher average effects.

**Youth programmes.** In 2007, the Swedish employer-paid payroll tax was cut on a large scale for young workers, substantially reducing labour costs for this group. Egebark and Kaunitz (2013) estimate a small impact, both on employment and on wages. Since the tax reduction also applied to existing employments, the cost of the reform was sizable, and the estimated cost per created job is at more than four times that of directly hiring workers at the average wage. Hence, they conclude that payroll tax cuts are an inefficient way to boost employment for young individuals.

appropriate. The additional resources allocated to the PES to monitor the job search of recipients of social assistance and the proposal to improve the coordination between various authorities might be a good instrument for combating social exclusion of these marginal groups. To the authors' best knowledge no evaluation has been conducted to assess the impact of such reform on employment of these vulnerable groups.

The increase of places in adult education is also well in line with the effort of the government to increase the educational level of the Swedish population and enhance employability of low-skilled workers. These measures are expected to primarily benefit low-educated adults but also young people, immigrants and the long-term unemployed. Even though no formal evaluation of these educational measures has been conducted, there are strong reasons to believe that adult education and LLL facilities improve employability of the participants and might contribute to lowering the overall level of unemployment and increasing labour supply. Forslund et al. (2011) found that on-the-job training (work experience scheme) in particular is associated with a lessening

of negative lock-in effects but smaller positive long-term effects than traditional labour market training. Furthermore, the relative size of the lock-in effect seems smaller during a recession and the long-run effects become less beneficial during a downturn. These results suggest that it is relatively more efficient to use labour market training during a recession than during a boom. The government proposal to extend the possibilities for young education drop-outs to complete their compulsory or upper secondary school education in 2014 is also in line with the effort of the government to reduce youth unemployment and alleviate the negative impact of early school leaving on future employment prospects and subsequent earnings. No formal evaluation of the folk high school initiative has been conducted yet. It is therefore difficult to assess the efficiency of this measure. According to a follow-up conducted by the PES, 23 per cent of the participants during the period 2011–12 have continued their studies and 17 per cent have got a regular subsidized job (new-start job), which *prima facie* seems to be disappointing, but the time window is limited and a more elaborate evaluation is needed before assessing the effectiveness of the measure.

# Conclusion

The relative success of Sweden during the 2008 crisis is not independent of the major structural reforms initiated during the 1990s, such as the reforms of the social protection system (pension system, unemployment and sickness insurance), the tax reforms (reduction of income tax, of pay-roll and corporate taxes) and the reforms of public sector and public finances initiated prior to the 2008 great recession. The main aims of these structural reforms were to secure the long-term sustainability of Sweden's public finances and social protection system, strengthen work incentives, and increase labour supply and economic growth. In other words, the fact that few structural reforms were initiated during recent years (2007–14), and in particular in the wake of the 2008 global economic crisis, should not be interpreted as some inherent difficulty to carry out necessary reforms as many of these reforms were already enacted and implemented. Healthy public finances at the onset of the 2008 recession, due *inter alia* to early fiscal consolidation measures initiated already during the 1990s, gave the Swedish government room for conducting a traditional Keynesian macroeconomic policy in order to maintain aggregate demand and limit the negative impacts of the crisis on employment, household income, consumption and welfare. Confronted by the severe deterioration of the situation in the labour market, the Swedish government, already in the early stage of the crisis (2008–09), therefore implemented a package of recovery and countercyclical measures, ranging from expansionary fiscal and monetary policy to active labour market policy (ALMP) and educational policy (see Anxo 2011; 2013). The various ALMP measures initiated during recent years also seem to have contributed to limit the negative impact of the crisis on increased unemployment and social exclusion. If it is true that the reinforcement of ALMP measures and the various policies of activation and educational measures (in particular the LLL facilities) do not *per se* create new jobs in the short run, they remain good instruments for securing transitions from unemployment toward employment and improving the allocation of resources between sectors. The abovementioned policy measures, by increasing labour market participation, have favoured

social inclusiveness and have limited the development of long-term unemployment.

Despite a decline in union density, the two sides of industry remain the two main actors regarding both labour market regulations and wage-setting and have played a determinant role during the recession. In order to stabilize employment and limit further increases in unemployment, wage moderation has been a feature of the outcome of collective bargaining during the last five years. The resulting slowdown in the rate of increase in labour costs combined with the depreciation of the Swedish currency due to expansionary monetary policy conducted by the Swedish Central Bank in 2008–10 helped to alleviate the negative effects of the recession on output and employment, and partly explains the increase in exports during the 2010 recovery. In contrast to countries with weaker industrial relations systems and unbalanced bargaining power between the two sides of industry, the Swedish industrial relations system has also entailed a more balanced sharing of the cost of the crisis. This also explains why Sweden still has one of the highest levels of job quality and why the current recession has not adversely affected working conditions by means of wage cuts, longer working hours, higher workloads and increased work intensity, as it has in other EU Member States (see Anxo 2011; 2013).

Overall, the Swedish experience shows that strong public finances are essential to handle the challenges confronting fiscal policy, especially under a deep recession. Swedish public finances have been somewhat weakened, even though from an international perspective the deficits have been limited and were primarily the result of automatic stabilizers, which have been crucial in maintaining aggregate demand in the economy and mitigating the impact of the global crisis. It should also be stressed that because of its healthy public finances, Sweden, unlike most other EU countries, is not subject to an excessive deficit procedure within the framework of the EU Stability and Growth Pact.<sup>14</sup> Against

14. It should be recalled that Sweden has respected this framework and met the targets every year since it was introduced.

this background and in light of the recent economic developments, the need for further fiscal consolidation, excessive deficit procedure, further structural reforms or austerity measures will be limited.

Even though, from an international perspective, Sweden seems up until now to have managed to overcome the 2008 economic crisis better than several other member states, some challenges and structural problems remain. Whilst Swedish employment rates are by international standards among the highest in the EU,<sup>15</sup> low-skilled young people, newly arrived migrants and people with low educational attainment remain groups displaying a worse labour market situation than the working-age population as a whole. Against this background the policy priorities are intimately related to the low labour utilization and the weak situation of these groups in the labour market. The main challenge for Sweden remains therefore to help these vulnerable groups to get a foothold into the labour market and to pursue its policy to increase labour supply in the long run.

Since Sweden is an export-oriented small open economy strongly exposed to international competition,<sup>16</sup> one of the potential important barriers for economic and employment growth is Sweden's future ability to keep the evolution of unit cost compatible with macroeconomic balance. Looking at the development during the last decade, wage development has been in accordance with productivity growth and characterized by wage moderation. There are strong reasons to believe that future wage developments will not jeopardize Sweden's future employment prospects. Intimately linked to the openness of the Swedish economy, one of the most important barriers to economic and employment growth is related to the economic development in the world economy. A protracted recession would clearly be detrimental to employment growth in Sweden, even though Sweden, compared with some other EU Member States, still has room to manoeuvre in conducting an expansionary fiscal policy.

The fact that Sweden is also strongly exposed to international competition requires high investment in research and development, in particular regarding the introduction of productivity enhancing and environmentally friendly technologies, but also public investment in infrastructure. Even though the pace of innovation and investment in R&D, by international standards, is high, some effort should be made regarding public investment in infrastructure, in particular roads and railways.

Last but not least, further investment in education, skill upgrading and occupational mobility appear to be a prerequisite to improve the matching process in the labour market and ensure a sustainable and employment friendly growth.

Enhancing the quality of education appears therefore as a challenge, in particular looking at the relatively poor scores of Sweden in the various Pisa surveys. Even though the former government has emphasized the need to improve basic education and better adapt the educational system to labour market needs, and has undertaken some important educational reforms (the introduction of a dual apprenticeship system for example), some efforts should be made particularly regarding teachers' relative wages, working conditions and social status, which have deteriorated during recent decades. In other words, these factors, as well as the demographic changes, in particular the expected increase in the number of pupils during the next decades,<sup>17</sup> require that larger resources should be invested in education and skill development.

15. Alongside the Netherlands, Sweden has the highest employment rate in the EU.

16. The trade-to-GDP ratio in 2011 was 73 per cent for Sweden and 24 per cent in the United States.

17. According to Statistics Sweden's (2013) latest population forecast, the number of children aged 1–5 is assumed to increase constantly during the next 10–12 years. The peak will be reached at the beginning of the 2020s when the children of those born in the 1990s reach preschool age. It is then expected that there will be 76,000 more preschool age children than there were in 2011. The number of pupils of compulsory school age decreased during all of the 2000s, but in 2011 the trend changed. Now SCB forecasts a steady increase that will remain until the beginning of the 2030s. Then close to 300,000 more children aged 6–15 are expected, compared with 2011.

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