

# Summary

## SNS Economic Policy Council Report 2017. Policies for an Inclusive Swedish Labor Market

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*English summary of the report in Swedish  
"Åtgärder för en inkluderande  
arbetsmarknad"*

**S**wedish labor market performance is remarkably strong in most dimensions. However, labor market outcomes have become increasingly polarized between a successful majority and marginal groups, who find it increasingly difficult to find employment. Low-performing youths, older unemployed, and migrants from refugee countries make up a large and increasing share of the unemployed. One of the greatest challenges for the Swedish society in the coming years is to find welltargeted labor market reforms in order to make it inclusive enough for these lowskilled workers to find employment.

The 2017 report from the SNS Economic Policy Council presents a number of stylized facts regarding the state of the Swedish labor market and proposes reforms to increase its performance even further. We discuss relevant reform strategies and

present three in-depth chapters on the labor market situations – and the need for reforms – of low-skilled youths, older unemployed, and recent refugees, respectively.

*The key conclusions regarding the current labor market situation are the following:*

**The Swedish labor market is, in general, a success story.** Employment is exceptionally high due to high labor market participation. The participation rates of women and older workers are particularly high compared to other EU countries. These positive aspects appear both when focusing on the last year and when analyzing averages across the past decade.

**Swedish unemployment is, in general, not a major problem.** Unemployment among prime-aged workers is low. Youth unemployment is high by international standards, but is to a large extent explained by young students, often in high school, searching for part-time work alongside their studies. Unemployment is a problem for marginal groups, however.

**Swedish wage dispersion is very low.** Wages are more compressed in Sweden than in any other EU country. Dispersion has remained unchanged for the past 15 years.

**There are very few low-qualified jobs in Sweden.** The share of all jobs that are considered to be low qualified is lower in Sweden than in any other EU country. Even countries with a higher average labor productivity have more low-qualified jobs.

**The differences in disposable income have increased despite the low and stable wage dispersion.** One major reason is that transfers to the non-employed have increased at a slower rate



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than wages. Earnings differentials between the employed and the non-employed have increased dramatically as a consequence.

**There are no longer any strong reasons to focus Swedish policy reforms on increasing the economic incentives to work.** The growth in income inequality has resulted in strong economic incentives to work. Minimum wages are by now substantially higher than transfers from unemployment insurance, from social assistance and from study grants.

**Labor market problems are to a large extent confined to people with low qualifications.** Abilities, education, and immigration background all have a stronger empirical relationship to employment in Sweden than in most other countries, and their importance has grown over time. This implies that labor market problems in Sweden have a strong distributional component, in particular since the income losses from being non-employed have become substantial.

Based on the description above, we give the following policy recommendations to the Swedish Government and to the social partners.

*The Government should:*

**Abandon the policy target of having the lowest unemployment rate in the EU by 2020.** This target is poorly designed since it is based on an international comparison with little substance. Well-designed targets direct policies towards those areas where problems are to be found. Labor market policies should strive to reduce the time to employment for marginal groups, such as the low educated youths, older unemployed, and refugee migrants. Hence, the targets should explicitly focus on the employment prospects of these groups.

**Lower the barriers of entry to vocational high school programs.** Currently, 23 percent of new students in Swedish high schools are enrolled in special tracks outside of the national programs. This share increased by a couple of percentage points when entry requirements were increased in 2011. The admissions criteria should be returned to their pre-2011 levels so that more of the young poorperforming students can start on vocational training program.

**Lower the barriers for passing vocational high school programs.** The current grading system, where grades and failures in early semesters count as much as the final grades, hurts youths who have weak periods during their studies. Returning to a system where each subject is graded according to the final knowledge-level of the student will increase the graduation rate of students with varying study motivation. The 2011 increase in grade requirements for receiving a full diploma made the situation worse and should be reverted. The recent suggestion to reinstate a requirement to pass all courses necessary for college admissions in order to receive a complete vocational high school diploma would be a step in the wrong direction and should hence be ignored.

**Increase the vocational high school students' exposure to employers.** Consistent Swedish and international evidence suggest that direct contacts with employers are crucial for a swift school-to-work transition, in particular for low-educated youths. The high schools should ensure that all students are granted such contacts. This is of particular importance for youths who lack social contacts of their own and for those who fail to complete high school.

**Reduce the waiting time for asylum decisions.** Waiting times to approved asylum is to a large degree associated with passive waiting. Thus, it is crucial to reduce waiting times, and to fill the time with as much active measures as possible to avoid negative long-term consequences.

**Develop the content of integration measures for recent refugee migrants.** The road to employment is shorter and faster if integration measures take place at actual workplaces, e.g. in the form of apprenticeships, rather than in class-room settings with little exposure to the actual labor market.

**Adjust language training to individual and occupational needs.** Current language training is too general and lacks labor market orientation. The explicit aim of the training should be a swift transition into jobs or vocational training, and the courses should be redesigned to achieve this aim.

**Intensify the attempts to improve the system for validating immigrant credentials.** Validation should take place at workplaces in cooperation with employers. It should cover occupational skills beyond formal training. The current system

of “fast tracks” (snabbspår) is a step in the right direction, but forcefully improved efforts, in particular from the Swedish public employment service (Arbetsförmedlingen), are needed for the fast tracks to reach their full potential.

**Ensure that gender equality is considered in integration measures.** Female immigrants have much lower employment rates than male immigrants and also participate in integration measures to a much lower extent.

**Continue to develop the use of employment subsidies.** Consistent scientific evidence shows that employment subsidies are a powerful tool to assist marginal groups into employment. To avoid crowding out regular employment of the same individuals, such subsidies should be targeted towards vulnerable groups. Existing subsidies – in particular those targeted at recent refugees – are used to a surprisingly low degree. The most likely reason is that the system is too complicated. The system should therefore be simplified further.

**Ensure that the public employment service gives priority to the implementation of “entry agreements”.** Recent years have seen two examples of failed implementations of well-meaning collective agreements aimed at improving the transition to employment for labor market entrants: the occupational entry agreements for youths (yrkesintroduktionsavtalen) and the above mentioned fast tracks for refugees (snabbspåren). At least in the second case, it appears that an important reason for the failure is that the public employment service has failed to fulfil their part of the agreements. A functioning tri-part cooperation between the Government and the social partners is likely to be the most effective way to reduce the barriers of entry into the labor market. In order for the cooperation to be functional, the Government must deliver on its promises.

**Develop the work with employer-oriented matching services.** Existing evidence suggests that marginal groups benefit from direct contacts with employers. All active labor market measures, including counselling and training programs, should therefore include as many direct interactions with employers as possible. There appear to be considerable room for improvement, in particular concerning the counselling services.

**Ensure that older unemployed workers receive**

**active labor market measures as early as possible.** Older unemployed workers are much more prone to become long-term unemployed than other unemployed workers. The probable causes include a combination of high reservation wages and discrimination from employers. Both these reasons suggest that older unemployed workers should participate in compulsory labor market programs as early in the unemployment spells as possible.

**Provide targeted artificially generated jobs for workers who are very far from finding employment on the regular labor market.** Such jobs should only be provided for workers with very low chances of finding employment on the regular market even with substantial employment subsidies, for example older unemployed after a long period of joblessness. The performed tasks should be as productive and meaningful as possible. Displacements of regular employment should not be a concern as long as the participants are properly selected. Participants should be paid in accordance with the benefit levels in the unemployment insurance system, even if they are not formally qualified for such compensation. With current replacement rates, the financial incentives to prefer regular employment remain substantial even with this level of compensation.

**Ensure that policy measures are properly evaluated.** Currently, many European countries – most notably Denmark – use randomized trials to ensure that the used policy measures within the domain of education and labor market policies are efficient. Sweden used to be a role model for evaluation, but this is no longer the case. All authorities involved in labor market, education, and integration policies should be mandated to facilitate randomized trials in cases where we lack state of the art knowledge about which policy measures are the most effective in a Swedish context.

*The social partners, at the local and central level, should:*

**Lower the barriers faced by the low skilled workers wanting employment.** The Swedish model needs to be flexible enough to adjust when the composition of unemployed workers shifts.

**Remove all unnecessary formal qualification requirements.** Requirements of formal education in order to be employable within sectors and positions should be kept at an absolute minimum. It is

inefficient to require a lengthy formal education in cases where work experience or personal traits are sufficient substitutes for formal training. Low-qualified positions can serve as complements to teachers and nurses in order to achieve a more efficient use of the collective human capital. This is particularly important within the public sector where hiring needs are expected to be large in the coming years.

**Ensure that low-qualified workers with poor formal qualifications can be employed at lower wages within the framework of existing collective agreements.** The social partners can and should sign agreements that differentiate minimum wages more according to experience than is currently the case. It is fully within the principles of current agreements to do so and to ensure that experienced workers or workers performing more qualified tasks are paid a higher wage. Thus, it is fully possible to differentiate wages more without lowering the wages of experienced or qualified workers within the same agreements.

**Develop the infrastructure surrounding the implementation of “entry agreements”.** As mentioned above, recent years have seen two examples of failed implementations of well-meaning collective agreements aimed at improving the transition to employment for labor market entrants: the occupational entry agreements for youths (yrkesintroduktionsavtalen) and the fast tracks for refugees (snabbspåren). In both cases, it appears that a lack of local coordination and communication between the public employment service and the local partners have contributed to this apparent failure. The social partners should give priority to constructing a better local infrastructure to ensure that future agreements do not fail. Repeated failures in the tri-part cooperation between the Government and the social partners will result in a need to reduce the role of the social partners on the Swedish labor market. Such a shift towards more of direct Government involvement would, however, be inferior to a functioning tri-part cooperation.

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