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A report by

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INTRODUCTION

This report provides an account of the labour market in Sweden. It was produced for the European Commission, DG V (Directorate-General for Employment, Industrial Relations and Social Affairs) by Anna Thoursie and Eskil Wadensjö at the Swedish Institute for Social Research, who carried out the research and wrote the report. ECOTEC Research and Consulting Ltd assisted in the editing and wrote the introduction and summary.

This study is one of a series of reports covering all the fifteen member states. Their aims are to take stock and analyse labour market developments in the EU in order to inform employment policies in the light of the conclusions of the Essen Summit:

- the promotion of investments in vocational training
- the increase in the employment-intensiveness of growth
- the lowering of indirect wage costs
- the increase in the effectiveness of labour market policy
- the strengthening of measures for groups particularly affected by unemployment.

The report is structured in six sections, as follows:

- Section 1 provides an analysis of the labour market situation in Sweden. It examines the background to the labour market by considering: demographic trends; the structure of the workforce; trends in job creation, job loss and wages and salaries; the causes of unemployment; and macroeconomic policies and forecasts.
- Section 2 describes the main labour market institutions, including public employment services, collective wage bargaining and employee participation systems.
- Section 3 examines labour market legislation. This section includes a discussion of employment protection schemes, regulations on working time, minimum wages and the work environment.
- Section 4 describes Sweden's labour market policies, in terms of both active and passive measures. Implementation of active measures by public bodies is discussed and the range of existing active labour market policy measures are described. This section concludes with an evaluation of the labour market measures.

- Section 5 presents an overview of other policies which have an impact on the labour market and which are not discussed in Section 4. The discussion includes, therefore, policies on education and training, taxation, social security and industrial and regional policies.
- The final Section places the discussion in the report in the context of the national debate in Sweden.

A short summary of the report is presented before Section 1.

SUMMARY

The labour market context

From the mid-1980s to 1994, the population of Sweden grew rapidly. The proportion of the population who are of active working age (20-64), is expected to increase slightly up to the beginning of the next century and the average age of this group will increase. This will influence the size and composition of labour supply, such that labour supply is likely to be less mobile. In addition, relatively few young people will enter the labour market in the next few years.

The proportion of the population aged 65 or more will change little in the next few years, although the proportion of the over 80s is gradually increasing, leading to an increase in the demand for health care and other types of old age-related services.

The labour force participation rate in Sweden has been high for the entire post-war period. Labour force participation has declined among men aged 55-64, but less so than in most other countries. Only in Japan has the labour force participation been significantly higher among men in this age group. The female labour force participation rate started to increase in the 1960s and became the highest among the industrialised countries in the 1980s. Labour force participation has markedly declined among young people up to the early 1990s, mainly as a result of the expansion of the educational system.

In the 1990s, labour force participation declined sharply as a result of the crisis. In the second quarter of 1996, the labour force was around 4.3 million people, having diminished by around 250,000 people from 1990.

Currently, more than 10 per cent of the Swedish population are immigrants, or children of immigrants. In the 1960s, immigrants had higher labour force participation rates than non-immigrants, although in the 1980s, the participation rate among immigrants became considerably lower than that for non-immigrants.

There are large differences in the labour force participation rates between immigrants from different countries of origin and between immigrants who arrived in Sweden in different decades. Generally, immigrants from non-European countries (except North America, Australia and New Zealand) have a much lower participation rate, as do immigrants who arrived after the mid-1980s.

A slump in external and internal demand during the early 1990s has resulted in a large fall, of almost 12 percentage units, in the employment/population ratio. From 1991 to 1994, employment fell by more than 550,000 people, from around 4.4 million to around 3.85 million people (first quarter of 1994). After that, employment started to

rise until the middle of 1995, increasing by almost 180,000 people. It has again fallen - by about 40,000 people - up to the second quarter of 1996.

The manufacturing, (including engineering) and construction industries were those sectors which were most severely affected by the recession of the early 1990s. Employment started to rise quite rapidly in 1994-1995 in the manufacturing (including the engineering sector), but not in the construction sector.

Part of the overall fall in employment is due to a lack of growth of the employment rate in the public sector. The number of people employed in the public sector is now contracting. The change in employment in the different sectors has affected men and women differently, particularly since a far greater proportion of employed women work in the public sector. Given that employment in the public sector is expected to continue to fall, while employment in the manufacturing and construction industries is expected to grow, the male employment/population ratio is likely to increase more than that for females.

In Sweden, there is a smaller proportion of self-employed people, compared to the EU-15 average. This is mainly because the agricultural sector is smaller in Sweden. In contrast, the proportion of employed people working part-time is higher in Sweden, 25 per cent in 1995, compared to the EU-15 average of 15 per cent (in 1994).

One of the most notable features of the Swedish economy recently is that unemployment has risen very sharply. The number of unemployed people in Sweden rose from 75,000 in 1990 to 356,000 in 1993 and the unemployment rate soared, from 1.6 per cent in 1990, to 8.2 per cent in 1993.

If people participating in labour market programmes are included in the labour force, almost 5 per cent of the labour force participated in 1994 and 1995. This means that, in 1994 and 1995, the proportion of people who were either unemployed or in labour market programmes was about 12-13 per cent of the labour force.

In the 1990s, differences between the unemployment rates of men and women started to emerge again, after a period of similar rates in the 1980s. The female unemployment rate became lower than that for males, so that by 1995, the female and male unemployment rates were 6.9 per cent and 8.5 per cent, respectively.

For older workers, the inflow to unemployment has generally been low, although their duration of unemployment has, on average, been longer. Unemployment among older workers has gradually increased, however. In 1995, the unemployment rate for 55-64 year olds was 7.4 per cent, compared to 6.5 per cent in 1994 and 5.5

per cent in 1993. With several exit routes from the labour market made more difficult to use, unemployment among older workers is highly likely to continue to rise.

During the 1980s, with relatively low aggregate unemployment, youth unemployment was markedly higher than unemployment among adults. As the labour force participation among young people markedly declined during the 1990s, mainly due to an expansion of the education system, calculating youth unemployment as a part of the population gives a better indication of the development over time. In 1990, less than 3 per cent of the youth population (18-24 years) was unemployed. The corresponding figure in 1993 was more than 10 per cent and declined to approximately 9.5 per cent in 1995.

The unemployment rate for immigrants is much higher than for the population as a whole. As with labour market participation rates, unemployment is greater among those who emigrated to Sweden in the 1980s and among immigrants from non-European countries (except North America, Australia and New Zealand).

Long-term unemployment has become a more serious problem. From 1994 to 1996, the proportion of unemployed people being out of work for more than 12 months has hovered around 16-17 per cent. Previously, in the early 1980s, long-term unemployment had the greatest impact on the older age group, but has to an increasing extent also become a problem for young people.

Evidence shows that the average duration of unemployment spells has been increasing. This is due to a general lengthening of unemployment duration, but also to very long unemployment spells for a group of people. There are serious problems associated with the position of people who alternate spells of unemployment with participation in labour market programmes. This problem is illustrated by the fact that around 60 per cent of labour market programme participants in late 1995 had been registered at an employment office for more than a year. The extent of recurrent unemployment is another serious problem.

The above problems reflect an ongoing and extensive imbalance in terms of education, skills and experience, between the type of labour supplied and the type of labour demanded by the Swedish labour market.

In respect of job creation and job loss, the importance of the establishment and expansion of new enterprises has been emphasised in political debate. Studies have shown that a proportion of the change in demand for labour is due to the establishment and closure of firms. However, the high VAT rate is sometimes pointed to as an obstacle to increased employment, especially in the 'households' part of the private services sector.

Labour market institutions

Labour market policy in Sweden, with some exceptions, is organised within *Arbetsmarknadsverket* (AMV), the Labour Market Administration. This is a government body at three levels - national (the National Labour Market Board), county (24) and local. The National Labour Market Board (the central authority), together with the government and the *Riksdag*, the Swedish Parliament, outlines the general framework of labour market policy and determines the rules of the different programmes. The Board also decides on the division of the budget for programmes in different counties.

The total number of employment offices is about 380, with at least one in every municipality. About 50 of the employment offices specialise in a specific industry or occupational category.

The Labour Court (*Arbetsdomstolen, AD*), was established in 1928 to solve conflicts regarding the interpretations and violations of collective agreements. The Court mainly settles disputes between parties to collective agreements, i.e. unions, employers and employers' associations. The cases in the Labour Court are decided by seven judges, of whom two are from the employer side and two from the employee side.

The great majority of all employees and employers in Sweden are organised in unions or employers' associations. Close to 90 per cent of all employees are members of a union and even more are covered by collective agreements. Young people and part-time workers make up the majority of those who are unorganised.

The main employer association is *Svenska arbetsgivarförbundet* (SAF), the Swedish Employers' Confederation, which organises private sector employers. Besides SAF there are a few small employers' associations in the private sector; an employers' association for non-profit employers, *Arbetsgivaralliansen*, one for the co-operative sector and three important employer organisations for the public sector.

The largest union organisation is *Landsorganisationen* (LO), the Swedish Trade Union Confederation. It organises blue collar employees in both the private and the public sector. In common with its counterpart on the employer's side in the private sector - the SAF - the LO member unions are organised according to industry and not according to occupation. The most important unions beside those belonging to LO are those belonging to the *Tjänstemännens Centralorganisation* (TCO), the Swedish Confederation of Professional Employees, and the *Sveriges Akademikers Centralorganisation* (SACO), the Swedish Confederation of Professional Associations.

The Government's action on wage formation in the 1980s and especially in 1990, represents a deviation from Sweden's non-interventionist tradition. From 1990, when the recession struck the Swedish economy, the main labour market problem has been the drastic rise in unemployment and not excessive wage increases. The 'Rehnberg' settlements, giving less than 3 per cent in negotiated yearly increases, ended early in 1993. Thereafter new two-year wage contracts at the industry level, at even lower levels, were negotiated for almost the whole labour market.

Sweden has had a low, but slightly increasing incidence of labour market conflict in the post-war period. Sweden still had a lower number of working days lost per 1000 employees than the European Economic Area average - 100 in Sweden compared to 153 in 1988 to 1993. The recession of the 1990s has led to a large decline in the number of conflicts, the number of people involved and the number of lost work days.

The trend in Sweden since the early 1980s has been in the direction of a less centralised system. However, agreements on collectively bargained insurances have always been taken at the central level. The Government is not, in general, involved in wage negotiations, nor in the trend towards more decentralised wage negotiations. Wage negotiations are taking place at the industry and at the firm level. Several studies support the hypothesis that centralised wage bargaining leads to lower wage increases than bargaining at the industry or the firm level. This means that Sweden has probably moved to a more inflation prone bargaining system in the last decade.

Labour market legislation

Employment contracts and collective agreements ensure an individual's employment rights. The content of employment contracts are determined, to a large extent, by collective agreements and the vast majority of workplaces in Sweden are covered by collective agreements. Unions have the right to take offensive actions, such as boycotts, against family businesses and one-man firms that have not signed any collective agreements, if the aim of the offensive action is to secure a signing of such agreements.

For many years, Sweden has had one of the most extensive family benefit systems in the world. Since 1955, employed Swedish women have had the right to extensive maternity leave at childbirth and, in 1974, parental leave became available to fathers. The Swedish system of parental benefits encourages a closer spacing of children and provides parents with a strong incentive to be employed prior to childbirth and even to postpone childbearing until earnings are sufficiently high.

The law on employee involvement, the Act on Codetermination at Work, is optional and concerns the relationship between the employer and the union, or unions, with which the employer has made collective agreements. The most important parts of the law are regulations concerning negotiations on employee involvement and regulations concerning a union's right to information about the affairs of the company (or public sector place of work).

Equal opportunities for men and women has been one of the most frequently discussed labour market issues since the 1970s. In 1990, after a review of existing legislation, the Act Concerning Equality between Men and Women was introduced. This consists of two parts: active measures to create gender equality in the workplace and a ban on sex discrimination. Many aspects of the Act are mandatory.

Disability policy has been part of labour market policy since the mid-1940s. However, the regulations currently in force are not very extensive, one reason being the trend towards giving employers, and the social insurance societies, more responsibility for rehabilitating disabled workers. *Handikappombudsmannen*, the Disability Ombudsman, was set up in 1994 to monitor issues relating to the rights and interests of people with functional disabilities. The Disability Ombudsman aims to remedy legislative deficiencies and, by presenting matters to the Government, to raise questions of statutory amendments, etc. The Disability Ombudsman aims to give special consideration to the position of disabled women in various sectors of society.

The current law regulating working time is the Working Hours Act. Its most important regulation is the restriction of a normal working week to 40 hours. The law is optional in its entirety but there are certain mandatory restrictions from the National Board of Occupational Safety and Health (*Arbetarskyddsstyrelsen*) that apply to the working hours of young people.

In accordance with the tradition of non-involvement of the State and the absence of legislation in the area of industrial relations, there are no laws regulating minimum pay in Sweden. The rules concerning minimum pay are negotiated by the labour market parties themselves. Evidence indicates that many workers had wages just at the minimum wage level in 1975 and 1980, but not in 1995 and that increased minimum wages tended to lead to increased wages for young people.

Labour market policies

OECD's comparisons of public expenditure on labour market programmes show that, in Sweden, labour market expenditure corresponded to 5.54 per cent of GDP in 1994/95; 3.00 per cent on active and 2.54 per cent on passive measures. The share of

total costs going to passive measures has, during the 1990s, been higher than in preceding decades. However, by international standards Sweden continues to have a relatively strong emphasis on active measures.

Two things characterised Sweden's labour market policy in the 1980s, namely, the emphasis on the role of the employment agencies and targeting particularly exposed groups in the labour market. Temporary public jobs, primarily for women and young people, were established within the service sector. Labour market training became less about retraining and more concerned with general education and Swedish language training for immigrants. Labour market programmes for disabled people became more extensive and special measures for young people were added in the recession of the early 1980s.

Labour market policy in the economic crisis of the 1990s differs from that of earlier recessions. Firstly, the government waited much longer this time to increase the volume of labour market programmes. Secondly, at the start of the recession there was a preference for labour market training over temporary job creation schemes.

Since 1935 the Government has subsidised the unemployment benefit societies, which are closely related to the trade unions. The societies receive state subsidies under a system, *the Ghent-system*, which is the same as that used in Denmark and Finland. This has contributed to the high degree of unionisation in the three countries.

Employment offices are the focus of active labour market policy measures. The number of measures is large and has gradually expanded. They can be grouped into demand-side measures, supply-side measures, youth measures, disability programmes and measures supporting self-employment.

Active and passive labour market policy programmes are financed from the state budget. The exception is a small contribution from membership fees paid to the unemployment insurance societies. The state budget provides funding through a special payroll tax, financing not only most of the unemployment insurance but also most of the other forms of unemployment compensation, including that for people in the work experience scheme, the trainee temporary replacement scheme, and allowances for unemployed people taking part in labour market training. Those parts of passive and active labour market policy not covered by the payroll tax are financed by a direct subsidy, to the National Labour Market Board, from the general budget.

The issue of if and how active labour market policies can be used to combat persistently high unemployment in Europe has attracted much, and growing, interest. The current high levels of unemployment have an important structural

component which cannot be tackled solely by macro-economics measures. Active labour market policies are thus seen as measures to improve macro-economic performance while at the same time ensuring equity in the labour market.

In this context Sweden, with its long tradition of emphasising full employment based on active labour market policy, has often been seen as a leading example.

However, evaluation of Swedish programmes indicates that their effects have been less favourable at the beginning of the present recession than in earlier periods.

Studies of the labour market programmes lead to the following conclusions:

- Labour market policy has been used as a fairly efficient counter-cyclical measure to stabilise the business cycle. In the early 1990s, the timing was not good, since programmes were reduced at the same time as a growth in unemployment.
- Labour market programmes are not one unified programme, but several very different programmes. Participants differ and the period in which they are used differ, so it should come as no surprise that there are both positive and negative effects.
- Most studies have been conducted in the context of low unemployment. This means that programmes may currently have different effects, given the presently high level of unemployment.
- The effects of programmes on wage formation are still unclear. Studies have produced conflicting results and unsolved methodological problems remain.
- Various studies have shown that unemployment can have a negative effect on people's health. It appears that this does not apply to people who participate in labour market programmes.

Education and vocational training policies

Upper secondary schooling in Sweden was reorganised in 1991 to provide sixteen programmes, two theoretical and fourteen vocational, the latter being of three years' duration. Most students continue into upper secondary school, after their compulsory education.

Unlike many other countries, Sweden has a high rate of recurrent education, as well as a broad take-up of training within active labour market policy. It is common for people to return to school after a period in the labour market. Almost 130,000 students took adult education courses in 1992. In the first half of 1994, as much as 38 per cent of those employed took part in training financed by their employer.

Several recent major Government commissions, such as the Commission on Productivity and the Economy Commission, have all recommended an increased emphasis on education, training and research. Accordingly, the Government has increased resources for education, training and research, despite fiscal restraint in most of the public sector in the current recession. Despite this, it is acknowledged that the demand for people with qualifications in the natural sciences and technical areas will outstrip supply.

A new problem for the education system is the growing number of students at all levels who do not have Swedish as their mother tongue. It has become a problem, especially in some suburbs of the three big cities, where immigrants constitute a majority. Concern about the education and labour market prospects of second generation immigrants is a main theme in the current Swedish debate.

Tax and benefit

Up to the early 1990s, Sweden had a highly progressive income tax system. The latest major tax reform in 1991-1992 lowered the marginal income tax rate. Income tax is still the most important source of income for the public sector, but the main part of income tax is the proportional municipal and county tax. The tax reform also broadened the tax base to counteract the loss of proceeds from the state income tax. In particular, value added tax was extended to new areas.

The aggregate tax revenues as a share of GDP in Sweden is among the highest of the OECD countries. The rate was at its highest in 1989 and 1990, around 56 per cent, but is still over 50 per cent in 1996.

The income tax reform was one of the main labour market reforms in recent decades. Although it is difficult to estimate the effects of the reform on labour supply, since Sweden entered a recession at the same time as the reform, it has been estimated that the total labour supply has been increased by about 1-2 per cent as a result of that reform.

The Swedish social security system consists in general of two or three tiers: a social security scheme, a collectively bargained scheme and private insurance. The social security schemes which are of most importance for the functioning of the labour market are the old age, disability and part-time pension schemes. A new old-age pension scheme is to be introduced in 1999.

Industrial and regional policies

For a long time, Swedish industrial policy was non-interventionist. The state sector was small and subsidies were of limited importance. The climate changed in the late 1960s, when a special ministry of industrial affairs was created leading to a period of active industrial policy.

Industrial policy of the 1970s was regarded as a failure by all major political parties. Since then, there have been very few firm-specific industrial subsidies, except to support the ailing banking sector in the 1990s. The preferred forms of industrial policy include subsidies for small firms, support for research and development and support as part of regional policy.

Industrial policy of the 1980s and the 1990s has been characterised by deregulation and privatisation. Markets such as the tele-communications sector and taxi transport have been deregulated, whilst some state industries have been privatised.

Regional differences in wage rates and unemployment are small in Sweden compared to many other European countries. However, the most northern counties have had long-term employment problems, providing the basis for regional policy. Policy has consisted mainly of various types of subsidy aimed at firms in three groups of designated support areas.

Firms in the support areas have received different types of support: lower payroll taxes, subsidised transport, investment subsidies and support for expansion of the workforce (employment subsidies). Regional policy has also included measures related to the transfer of central government authorities from the Stockholm area to other parts of Sweden.

As a result of joining the EU, regional policy has changed slightly, although regional subsidies have increased overall. There are now higher investment subsidies, and fewer subsidies for investment in infrastructure and fewer transport subsidies.

One of the two *Employment Bills* presents proposals for an expansion of regional policy. Measures include: further support to small firms in the support areas, more support to the tourist industry and higher investment subsidies to the agricultural sector.

The national debate

The major topics of debate currently focus on the potential net employment effects of labour market deregulation and of increased flexibility in the labour market. In respect of deregulation, the main controversial issue is the future of the regulations

on dismissals (including the inverse seniority rules - 'first in last out'). The future conduct of wage negotiations is also controversial.

The 1996 *Spring Fiscal Policy Bill* and the *Employment Bills* focus heavily on education. However, it is often questioned whether education can really be the panacea for unemployment. For example, will there be as many new - and suitable - jobs as there are people leaving the education system within a couple of years? A related issue is the impact on the quality of education of large increases in student numbers.

Another important topic is the possible net employment effect of the presently, very extensive active labour market policy. Employers' organisations are critical, while the unions take a more defensive stand. This is closely related to problems associated with the system of renewing unemployment benefit eligibility by participating in a labour market programme. Thus far there has been no upper limit on the period over which spells of unemployment can be alternated with periods of programme participation. In conjunction with the *Employment Bills*, the Government proposed that the period of unemployment compensation, combined with labour market programme measures, should be a maximum of three years. A majority in the Riksdag voted for this proposal and the new rules will come into force 1 January 1997.

The level of unemployment benefit is also debated. The Swedish Trade Union Confederation (LO) and the Swedish Confederation of Professional Employees (TCO), in particular, demand that benefit levels should be restored to the original 90 per cent of previous income.

The unions are also concerned that, as a result of proposed changes in the unemployment benefit system, they will have to carry additional costs that would otherwise have been supported by the unemployment benefit system.

A further important issue concerns wage discrimination on the basis of gender. In 1995, there was an increase in the number of such complaints.

The deterioration of the position of immigrants and of young people in the labour market is of concern. Their participation in some labour market programmes has been encouraged to address some of the problems.

In general, employers do not consider that such increased programme participation will substantially increase the chances of employment. Instead, they consider that minimum wages in the collective agreements are too high and that employment protection legislation is too strict.

Whether a general reduction of working hours is a possible means of increasing employment is often discussed. The employers' organisations are widely opposed to this, while a range of opinions have been expressed by unions.

Most of these issues are addressed in major projects undertaken by committees or commissions initiated by the Government. A brief overview of such initiatives and the content of their published reports is provided in Section 6.

1 ANALYSIS OF THE LABOUR MARKET SITUATION

1.1 Demographic Trends ¹

From the mid-1980s to 1994, the population of Sweden grew rapidly, as a result of high net immigration and a large excess of births over deaths. However, the growth came to a halt in 1995. Between 1994 and 1995, the excess of births over deaths declined from 20,400 to 9,300 and net migration from 50,900 to 11,900. This trend has continued in 1996.

The age structure of the population is very much dependent on the large variation in the number of births between different periods. Large cohorts - more than 110,000 births - are those who were born in the years 1942-1953, 1963-1972 and 1988-1994. As the cohorts were small in the years 1973-1987, relatively few young people will enter the labour market in the next few years. This will help to ease the problems faced by young people in the labour market (see section 1.4).

The proportion of the population in the active ages, 20-64, will slightly increase up to the early years of the next century. However, the composition of this group of the population will change. The average age of the group in the active ages will increase and the proportion of the group who are over 50 will increase from 31 per cent in 1993 to 37 per cent in 2010, as a result of the ageing of the baby boom cohorts of the 1940s. This will influence the size and composition of labour supply. With a higher proportion of the labour force in their 50s or over, labour supply is likely to be less mobile.

The proportion of the population aged 65 or more will not change to any great extent in the next few years, but will start to increase when the baby boom cohorts of the 1940s reach retirement age. However, in the 1990s, changes have taken place in the age composition of those aged 65 or over. The proportion of those over 80 is gradually increasing. This is explained by increased longevity and by the small cohorts born in the 1920s and 1930s. This will lead to an increase in the demand for health care and other types of old age-related services.

¹ This section builds mainly on Statistics Sweden (1994a) and (1994b).

1.2 Structure of the Labour Force ²

The labour force participation rate in Sweden steadily increased during the 1970s and 1980s. The increase was much larger during the 1970s, from around 73 per cent in 1970 to around 81 per cent in 1980.³ Between 1980 and 1990, the additional labour force participation rate increased by around 4 percentage units.

The increase in the 1970s was mainly due to the increase in the labour force participation rate for women. This occurred alongside the bulk of the expansion of the public sector. The female labour force participation rate increased from less than 60 per cent in 1970 to around 75 per cent in 1980, while the male labour force participation rate during that time hardly increased at all (from around 87 per cent in 1970, to around 88 per cent in 1980).

In contrast to many other countries, Sweden did not switch to an anti-inflationary economic policy regime in the 1980s. Instead, several factors - including, importantly, repeated devaluations in the early 1980s - explain why internal and external demand continued to be strong by international standards, despite a small decline in the economy in the early 1980s. (See section 1.8 for an account of this development.) Continuing and relatively strong demand for labour in the 1980s ensured that labour force participation rates remained high.

The labour force participation rate in Sweden started to fall in the early 1990s, due to the recession. According to the Labour Force Surveys by Statistics Sweden, the labour force participation rate decreased from a high of almost 85 per cent in 1990, to close to 78 per cent in 1994 (see Table 1). For 1995, mainly as a response to temporarily improved labour market conditions, a minor increase in the participation rate occurred. However, during the first and second quarter of 1996, the rate declined somewhat, mainly as a result of a slight downturn of the economy.

When jobs are hard to find, some people will leave the labour force entirely or not enter at all. Leavers and non-entrants to the labour market have, therefore, contributed to the overall fall in the labour force participation rate. This is a new phenomenon in the Swedish labour market, since in previous economic slowdowns, such as in the early 1980s, the participation rate did not fall.

² Section 1.2, and the remainder of Section 1, is mainly based on: European Commission (1995); Ministry of Finance (1996); National Institute of Economic Research (1996a), (1996b); OECD (1995c), (1996b); Statistics Sweden (1989), (1996a), (1996b), (1996c), (1996d) and (1996e).

³ The data in this and the remainder of Section 1, concerning developments before 1986, are taken from Statistics Sweden (1989). These data are not revised as to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

Part of the fall in the rate is, however, due to the fact that people who participate in some newer types of labour market policy programmes are classified as outside the labour force (around 70 per cent of all programme participants). In earlier recessions, only participants of labour market training, and the employability institutes for disabled workers, (see Section 4.3.4), were excluded from the labour force figures.⁴

Also, the number of students at upper secondary schools and universities increased rapidly in the early 1990s, largely as a consequence of the expansion of the education system, taking place within the joint framework of labour market policy and education policy. This is the single most important contributing factor to the dramatically lower labour force participation rates among young people in the 1990s. In 1990, the labour force participation rates for people in the 16-19 and 20-24 age groups were 50 per cent and 82 per cent respectively. In 1995, the corresponding figures were 28 per cent and 65 per cent.

Nevertheless, the labour force participation rate in Sweden exceeds that in most other countries. In 1995, the rate in Sweden was around 78 per cent (see Table 1). This is higher than the average for the 15 EU Member States (EU-15) - 66 per cent in 1994. Also, the labour force participation rate among those aged 55-64 (both women and men) is very high from an international perspective - 67 per cent in 1995.

Table 1. Labour Force Participation Rate (16-64 years), 1986 - Second Quarter of 1996 (per cent)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996:I	1996:II
Total	83.0	83.2	83.7	84.2	84.5	83.5	81.5	79.1	77.7	78.2	77.0	77.9
- Men	85.4	85.4	85.7	86.4	86.6	85.5	83.5	80.9	79.5	80.3	79.2	80.2
- Women	80.6	80.9	81.5	81.9	82.3	81.4	79.6	77.2	75.7	76.1	74.7	75.6

Sources: Statistics Sweden (1996a), (1996b), (1996c) and (1996d).

Note: The figures referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

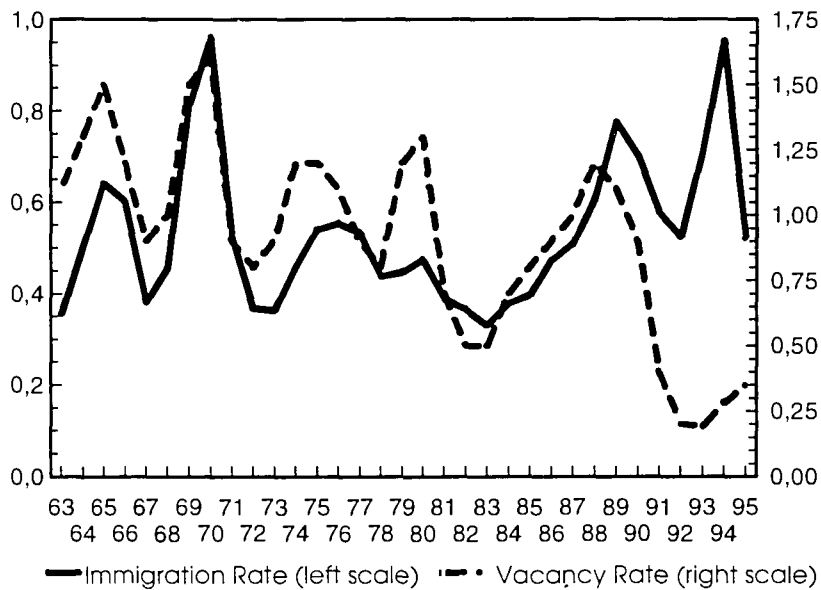
⁴ The following active labour market programmes are the major programmes (including programmes aimed at disabled workers), that **are not** included in the Labour Force Survey definition of the labour force: labour market training, work experience scheme, employability institutes, youth practice, work place introduction, computer workshops and municipal follow-up responsibility for people under the age of 20. Taken together, the average number of people in these measures was around 138,000 in 1995.

The following active labour market programmes are the major programmes (including programmes aimed at disabled workers), that **are** included in the Labour Force Survey definition of the labour force: recruitment grants, temporary job creation scheme, sheltered jobs in the public sector, work with a wage-subsidy, trainee temporary replacement scheme, start-up grants, youth introduction scheme and immigrant trainee jobs. Taken together, the average number of people in these measures was around 115,000 in 1995.

The fall of the labour force participation rate in the 1990s implies a decrease of the labour force. Between 1990 and the second quarter of 1996, the labour force diminished by around 250,000 people. In the second quarter of 1996, the labour force amounted to around 4.3 million people.

Sweden became an immigration country in the post-war period. Currently, more than 10 per cent of the population are immigrants or children of immigrants. Immigration has varied with the business cycle as seen in Figure 1, reflected in the close relationship between the inflow of immigrants (as a percentage of the population) and the vacancy rate (as a percentage of the labour force). The only exception is in the early 1990s, when large scale refugee immigration, mainly from former Yugoslavia, coincided with a massive rise in unemployment and a decline in the number of vacancies.

Figure 1. Immigration Rate (as a percentage of the population) and Vacancy Rate (as a percentage of the labour force), 1963 - 1995



Source: Wadensjö (1995) updated for 1995.

In the 1960s, immigrants had higher labour force participation rates than non-immigrants.⁵ This was especially so among women. This differential disappeared in the 1970s, when the labour force participation among non-immigrant women

⁵ For more details, see Wadensjö (1996a).

increased greatly. In the 1980s, labour force participation among immigrants became considerably lower than that for non-immigrants.

In the recession in the 1990s, this difference increased even more. As Table 1 shows, the male and female labour force participation rates in 1995 were approximately 80 per cent and 76 per cent, respectively. However, the rate for foreign-born men was only 69 per cent and for men with foreign citizenship it was 62 per cent. For foreign-born women, the participation rate was 61 per cent and for women with foreign citizenship it was 51 per cent. Comparisons of the labour force participation rates of different age groups - to ascertain if high proportions of immigrants belong to age groups with low participation rates, such as young people - does not change this dismal picture.

There are large differences in the labour force participation rates between immigrants from different countries of origin and between immigrants who arrived in Sweden in different decades. Generally, immigrants from non-European countries (except North America, Australia and New Zealand) participate to a much lesser degree in the labour force, compared to immigrants from European countries.⁶ Also, immigrants who arrived after the mid-1980s participate to a lesser extent than immigrants who arrived earlier. The latter is partly explained by the fact that there was a labour shortage at the time when many of the earlier immigrants arrived - this was the reason for immigrating to Sweden - and thus they were often immediately employed after entering Sweden.

From an international perspective, Sweden has a skilled labour force. As in other industrialised countries, the expansion of the educational system has led to a gradual increase in average education levels among the population. A particular factor which distinguishes Sweden from other countries is the high extent of recurrent education and the large scale of labour market training as a part of active labour market policy.⁷

The proportion of labour force participants aged 25 to 64 who have nine, or fewer, years of education, has decreased from around 60 per cent in the early 1970s, to 24 per cent in 1995.

⁶ With some exceptions, e.g. immigrants from the former Yugoslavia and Greece have low participation rates.

⁷ Close to 200,000 people participated in labour market training at some time during the fiscal year 1994/95. The vast extent of labour market training can be shown by comparing this figure to the number of leavers from the regular school-system (compulsory schools, upper secondary schools and universities) in an average year - around 100,000 people.

Also in 1995, 49 per cent had their highest educational attainment at the upper secondary level, while 26 per cent had a post-secondary or university education. However, the proportion of the labour force with a post-graduate education was less than 1 per cent in 1995. This is lower than in many EU- and OECD-countries.

It is generally expected that the supply of people with education in, especially, the natural sciences and technology, will not be sufficient to meet future demand. Several recent major governmental commissions, such as the Commission on Productivity⁸ and the Economy Commission,⁹ have all recommended an increased emphasis on education, training and research. NUTEK (1994) points out that an important prerequisite for a structural transformation is the availability of qualified labour. It is expected that the demand for labour with at least a three-year long university education will be very high and that the demand for workers with a Master's degree in Engineering is expected to more than double up to 2010.

1.3 Structure of Employment

Even more dramatic than the decline in labour force participation is the drop in employment (see Table 2 for the main changes). The slump in external and internal demand during the early 1990s was the main factor behind the drastic fall of almost 12 per cent in the employment/population ratio during the period 1990-1994 (see section 1.8). This was worse than in any other OECD country, except Finland.

The employment/population ratio for men started to decline in the decades before the economic crisis of the early 1990s. This was mainly a result of prolonged youth education and an increase in the frequency of early exit from the labour market. However, for the first time in the period covered by the labour force surveys (starting in 1963), the employment/population ratio among women has declined, after a peak was reached in 1990.

Table 2. Employment/Population Ratio (16-64 years), 1986 - Second Quarter of 1996 (per cent)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996:I	1996:II
Total	80.9	81.4	82.2	82.9	83.1	81.0	77.3	72.6	71.5	72.2	71.0	71.9
- Men	83.3	83.6	84.2	85.1	85.2	82.7	78.3	73.0	72.3	73.5	72.5	73.5
- Women	78.5	79.2	80.1	80.7	81.0	79.3	76.3	72.1	70.6	70.8	69.6	70.3

Sources: Statistics Sweden (1996a), (1996b), (1996c) and (1996d).

Note: The figures referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

⁸ See SOU 1991:82 for further information.

⁹ See SOU 1993:16 for further information.

The fall of the employment/population ratio has not occurred solely among the younger and older sections of the population of active age, since the employment/population ratio of people aged 25 to 54 has also declined, from 92 per cent in 1990 to 83 per cent in 1995. In the older age group (55-64 years), the rate has fallen from 69 per cent in 1990, to 62 per cent in 1995. For the youngest group (16-24 years), the employment/population ratio has fallen from 66 per cent in 1990, to 42 per cent in 1995.

The fall in employment which began in 1991, continued steadily during 1992, 1993 and early 1994. Between the first quarter of 1991 and the first quarter of 1994, employment fell by more than 550,000 people, from around 4.4 million to around 3.85 million people. After that, employment started to rise until the middle of 1995. Between the first quarter of 1994 and the second quarter of 1995, employment increased by close to 180,000 people.

Due to weak growth in demand, in both domestic and international markets, employment stagnated and then started to fall again. Between the second quarter of 1995 and second quarter of 1996, employment has fallen by more than 40,000 people.

The sectors that were most severely affected by the recession in the early 1990s were the manufacturing, engineering and construction industries (see section 1.5). However, in both the manufacturing and engineering industry, employment started to pick up quite rapidly during the temporary upturn in 1994-1995. This was not the case in the construction sector.

It is not only in the private sector that employment has fallen. Part of the overall fall is due to a break in the trend of the employment development in the public sector (see section 1.5). The number of people employed in the public sector is now contracting. This had started already in the late 1980s, when employment within the (relatively small) central government sector started to decrease¹⁰ and, in the early 1990s, employment in the much larger local government sector started to fall, albeit not as markedly as in the, e.g. manufacturing, engineering and construction industries.

The decrease in employment in the different sectors has affected men and women differently. Less than 20 per cent of employed men, but more than 50 per cent of employed women, worked in the public sector in 1995. On the other hand, more

¹⁰ Partly, this decrease in employment was only an accounting sense, i.e. due to privatisation of formerly publicly owned enterprises.

than 45 per cent of employed men worked in the manufacturing, engineering or construction industries, while less than 15 per cent of the women had jobs in these sectors in 1995.

Since employment in the public sector is expected to continue to fall, but employment in the manufacturing, engineering and construction industries is expected to pick up after the present down-turn, the female employment rate is not as likely to rise - at least not at the same pace - as the male employment rate in the coming years.

Most of the immigrants who came to Sweden when large scale immigration started in the 1960s found work in the manufacturing industry. Immigrants also went to the private services sector (cleaning, restaurants, hotels, etc.). In 1970, 60 per cent of foreign born people were employed in the manufacturing industry (including mining and construction) and 31 per cent in the private services sector. This pattern gradually changed in the 1970s and the 1980s. In 1990, only 33 per cent of foreign-born workers were employed in the industry sector. The proportion employed in the private services sector was about the same as in 1970, 27 per cent, but the proportion of immigrants employed in the public sector increased from 5 per cent 1970, to 39 per cent in 1990.¹¹

A comparison of the occupations of immigrant and non-immigrant men, in 1994, shows that the three occupations with the highest over-representation of male immigrant workers are cleaning, hotel and restaurant jobs, and manual work in the textile industry. The corresponding occupations with over-representation for female immigrants are blue-collar work in the metal working, textile and chemical industries.¹²

Self-employed people make up a smaller share of overall employment in Sweden compared to the EU-15 average. In 1995, the proportion of self-employed people in Sweden was 11 per cent, while the EU-15 average was 15 per cent (in 1994). The main explanation is that the agricultural sector is smaller in Sweden, compared to the EU-15 average.

Immigrants are over-represented among self-employed people - 13 per cent among those employed in 1994, compared to 11 per cent among employed non-immigrants.¹³ The difference is greater if self-employment in the agricultural sector is

¹¹ See Lundh and Ohlsson (1994) for the long-term development of immigration to Sweden.

¹² See Wadensjö (1996a). This study also points out the differences in occupational structure between different immigrant groups.

¹³ See Wadensjö (1995).

excluded. As in other respects, there are great differences between immigrants from different countries. Immigrants from Finland are highly under-represented amongst self-employed people - at 7 per cent, whilst the proportion for immigrants from outside Europe is 17 per cent. One explanation for the high propensity for some groups of immigrants to start businesses may be that they experience problems in obtaining other employment (see the figures on unemployment among immigrants in section 1.4).

The proportion of employed people working part-time (i.e. less than 35 hours per week) is higher in Sweden, 25 per cent in 1995, compared to the EU-15 average of 15 per cent (in 1994). Women's share of part-time employment in Sweden was 83 per cent in 1995. Male part-time employment consists primarily of male students and men, aged 60-64, who receive a partial pension.

The proportion of employed people working on fixed term contracts, 14 per cent in 1995, is slightly higher than the EU-15 average of 11 per cent (in 1994). This has increased since the start of the recession, when the corresponding figure for 1990 in Sweden was 10 per cent. Young people and recent immigrants are over-represented among people employed on fixed terms contracts. (More information on the development of part-time work and fixed term contracts is presented in section 1.7.)

1.4 Structure of Unemployment

One of the most dramatic features of the Swedish economy recently is that unemployment has risen very sharply. The number of unemployed people in Sweden almost quintupled from 1990 to 1993, from 75,000 people in 1990 to 356,000 in 1993 (see Figure 2). The unemployment rate soared, from 1.6 per cent in 1990, to 8.2 per cent in 1993. During the economic slowdown in the early 1980s, the figure of 151,000 unemployed people in 1983, and an unemployment rate of 3.5 per cent, was seen as disturbingly high.

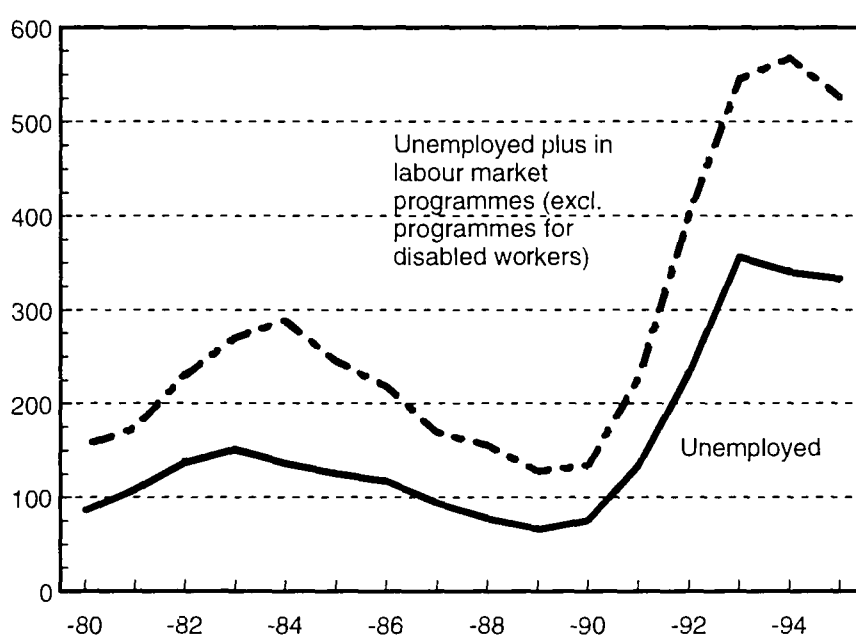
In addition to very high unemployment at present, the extent of active labour market programmes has reached unprecedented high levels (see Section 4 for more information on these measures).

In 1994 and 1995, the number of labour market programme participants (excluding programmes for disabled workers) was, on average, around 225,000 and 190,000, respectively (see Figure 2). Of these, around 70 per cent participated in programmes that were not included in the labour force, according to the Labour Force Survey

definition (see section 1.2 for the labour force classification of the different programmes).

If these people are included in the labour force, around 4½ to 5 per cent of the labour force participated in labour market programmes (excluding programmes for disabled workers) in 1994 and 1995, with a minor decrease during 1995. Thus, in 1994 and 1995, the number of people who were either unemployed or in labour market programmes corresponded to 12-13 per cent of the labour force.

Figure 2. The Number of Unemployed People (16-64 years) plus People In Labour Market Programmes (excluding programmes for disabled workers), 1980 - 1995 (thousands)



Sources: The National Labour Market Board and Statistics Sweden.

Note: The figures referring to 1986 - 1992 are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993. The figures referring to 1985 and earlier are not revised.

In most EU- and OECD-countries, the female unemployment rate is higher than the male unemployment rate. In the 1960s, this was also the case for Sweden. Gradually, with women more established in the labour market, the difference between the unemployment rates of men and women declined and, in the 1980s, male and female unemployment became more or less the same.

However, during the 1990s, differences between the genders started to emerge again (see Table 3). The female unemployment rate became lower than the male rate and the difference between the two rates peaked at more than 3 percentage

units, in 1993. In 1995, the female and male unemployment rates were 6.9 per cent and 8.5 per cent, respectively.

Table 3. Unemployment Rate (16-64 years), 1986 - Second Quarter of 1996 (per cent)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996:I	1996:II
Total	2.5	2.1	1.7	1.5	1.6	3.0	5.2	8.2	8.0	7.5	7.7	7.7
- Men	2.4	2.1	1.7	1.4	1.7	3.3	6.3	9.7	9.1	8.5	8.5	8.3
- Women	2.5	1.8	1.7	1.5	1.6	2.6	4.2	6.6	6.7	6.5	6.9	7.1

Sources: Statistics Sweden (1996a), (1996b), (1996c), (1996d) and (1996e).

Note: The figures referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

In the recession, more men than women became unemployed, mainly because those sectors in which male employment is highest - the manufacturing, especially the engineering, and the construction industries - were the most severely affected by the crisis. However, in 1994 when employment started to rise again, the increase in male employment exceeded the increase in female employment. The main reason for this was the buoyant growth in the export sector, in which many men work.

In fact, there has been a minor increase in unemployment among women during 1993 to the first six months of 1996. This is mainly because cuts in the public sector, where many women work, have made it harder for unemployed women to find new jobs that are similar to the ones in which they have experience and relevant education. The sectors where a further expansion is expected are those where the labour force is predominantly male, while the sectors with a majority of female workers are expected to decrease. Taken together, these developments imply a narrowing gap between the male and female unemployment rates.

For older workers, the inflow to unemployment has generally been low. The inverse seniority principle applying to lay-offs (i.e. 'last in-first out') has meant that only a few older people have become unemployed. On the other hand, the duration of unemployment has, on average, been longer for older workers. Between 1971 and 1991, there was a special unemployment related disability pension for older workers. Exhaustion of unemployment benefits (after 90 weeks) gave eligibility for such a disability pension for people aged 60. These pensions were frequently used as an exit route from the labour market in cases of lay-offs. A large part of registered unemployment among older workers was, in practice, a form of early exit from the labour market. However, since October 1991, this exit route from the labour market has been closed.

In the present recession, unemployment among older workers started to rise later than among young people. The first reaction to a fall in demand is to stop hiring, not to lay off workers, thus diminishing the opportunities for entrants to the labour market to get a job. In addition, older workers also have longer periods of notice of lay-off than do younger workers.

Unemployment among older workers has gradually increased, however. In 1995, the unemployment rate for 55-64 year olds was 7.4 per cent, compared to 6.5 per cent in 1994 and 5.5 per cent in 1993. With several exit routes from the labour market made more difficult to use, unemployment among older worker is highly likely to continue to rise.¹⁴

During the years of relatively low aggregate unemployment before the 1990s, the unemployment rate of young people, aged 18-24, was at a considerably higher level than the adult unemployment rate. In addition, variation in this rate with the business cycle was more pronounced. In other words, the young labour force functioned as a 'buffer' in the labour market. Young workers also had a larger number of unemployment periods, although the periods were of shorter duration. Thus, long-term unemployment among young people was a relatively minor problem.

Considering the sensitivity of the young labour force to fluctuations in the economy, it is not surprising that young people were among the most adversely affected by the fall in demand during the initial phase of the recession in 1991 and the following economic slump. The proportion of the youth population¹⁵ aged 18-24 who were unemployed or on programmes, between 1990 and 1995, is given in Figure 3.

In 1990, the total proportion of young people who were either unemployed or on programmes was less than 5 per cent. The situation worsened drastically in only a few years. In 1993, more than every fifth young person was unemployed or on programmes. The proportion on programmes remained approximately the same in

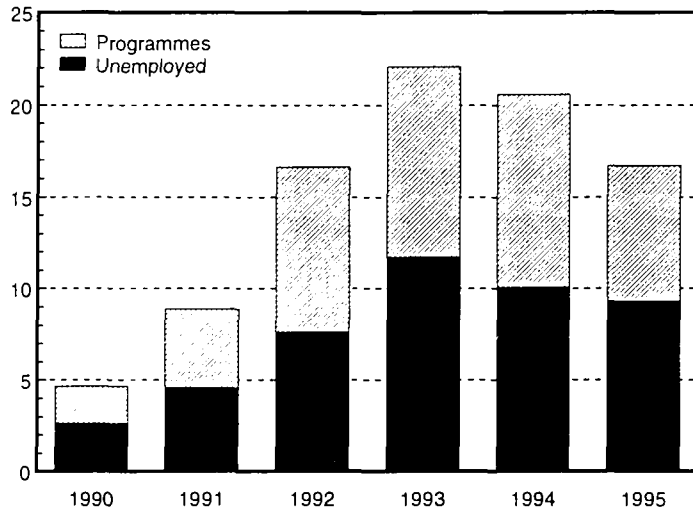
¹⁴ According to the National Labour Market Board (1996c), the chances of getting a job (measured as the share of registered unemployed leaving for a job in the respective age group) is highest for people up to the age of 30. In the age group 33-48, the chance of getting a job is lower, but not decreasing by age. For people aged 49 and older the chances rapidly deteriorate with age.

However, age is not the only factor. Older people generally have a lower level of education. Among unemployed people in the 50-54 age group (including labour market programme participants), more than 40 per cent have less than upper secondary as the highest educational level. The equivalent proportion for the 60-64 age group was around 60 per cent.

¹⁵ Since the trend in labour force participation among young people has decreased dramatically (see section 1.2), using 'youth population' instead of 'youth labour force' as the denominator is more appropriate. Also, the labour market programmes in which young people participate, or that are specially geared towards them, are often not included in the Labour Force Survey definition of the labour force (see section 1.2).

1994, while there was a minor decrease in the unemployed percentage. In 1995, the proportion of young people in programmes fell by around 3 percentage units, from about 10.5 per cent to 7.5 per cent, while the decrease in open youth unemployment was less than 1 percentage unit, from 10 per cent to approximately 9.5 per cent.

Figure 3. Young People (18-24 years), Unemployed and on Programmes, 1990-1995 (per cent of population)



Source: National Labour Market Board and Statistics Sweden. Excludes some measures for disabled young people.

Tables 4 and 5 show that the unemployment rate is much higher among the foreign-born population than among the population as a whole. It is also higher among those who are foreign citizens than among those who were born abroad. (Immigrants who have received Swedish citizenship have generally lived in Sweden longer than immigrants with foreign citizenship.)

Table 4. Unemployment Among Men According to Immigrant Status in 1994 (per cent of unemployment)

Age	Total population	Foreign citizens	Born abroad
16-19	17.7	33.4	26.5
20-24	19.3	35.4	31.1
25-34	10.9	29.9	26.1
35-44	7.4	23.7	16.6
45-54	5.3	13.9	9.2
55-59	7.0	10.9	9.3
60-64	9.3	9.8	9.1
All	9.1	23.9	16.8

Source: Wadensjö (1995)

Table 5: Unemployment Among Women According to Immigrant Status in 1994 (per cent of unemployment)

Age	Total population	Foreign citizens	Born abroad
16-19	15.5	30.8	24.8
20-24	13.9	24.1	25.0
25-34	8.8	24.7	21.2
35-44	5.3	15.0	11.8
45-54	3.7	7.4	6.3
55-59	3.8	7.1	5.5
60-64	7.0	14.8	8.9
All	6.7	17.4	12.6

Source: Wadensjö (1995)

It also appears that there is considerable variation in immigrants' unemployment rates depending on the decade of arrival to Sweden. Immigrants who arrived in the 1960s have a much lower unemployment rate than those who arrived in the 1980s and 1990s (comparing people of the same age).

The unemployment rate also varies strongly in relation to country of origin. Unemployment among immigrants from neighbouring countries (Finland, Denmark and Norway) and from Western Europe is much lower than that among immigrants from countries like former Yugoslavia, Iran, Chile and Greece.¹⁶

Previously, long-term unemployment was not a major problem in Sweden. It has increased during the recession, but it is still lower than in many European OECD countries. Table 6 shows trends in long-term unemployment, according to the Labour Force Survey definition of 'long-term unemployed', i.e. to have been unemployed for more than 26 weeks. This type of long-term unemployment has, as a proportion of unemployment, more than doubled since 1990-1991.

Table 6. Share of Long-Term Unemployment (16-64 years), 1986 - Second Quarter of 1996 (per cent of unemployment)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996:I	1996:II
Total	17.3	21.2	19.4	18.2	14.7	16.4	24.9	32.0	38.2	35.2	38.0	39.6
- Men	19.6	20.8	22.5	20.6	*	17.9	26.3	34.4	40.6	37.2	38.5	42.9
- Women	15.0	22.2	18.9	*	*	14.3	22.5	28.5	34.8	32.6	37.4	35.3

Sources: Statistics Sweden (1996a), (1996b), (1996c), (1996d) and (1996e).

Note: The figures referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

* = The information is not available or too imprecise to be stated.

¹⁶ See Wadensjö (1995).

In 1991, less than 5 per cent of the unemployed people had been out of work for more than 12 months (which is the standard Eurostat- and OECD-statistics definition of long-term unemployment). The proportion of people whose unemployment spells were longer than 12 months increased in the following years. Around 16-17 per cent of unemployed people have been out of work for more than 12 months in 1994, 1995 and the first two quarters of 1996.

In the economic slowdown of the early 1980s, long-term unemployment hit mostly the oldest age group (55-64 years) in the labour force. At that time, the other age-groups were hardly affected at all.

In the recession of the early 1990s, 20-24 year olds had the highest proportion still remaining unemployed after six months. This amounted to around 5 per cent of the labour force during 1993 and 1994. However, as mentioned before, the labour force participation rate among young people decreased substantially during the 1990s. Taking account of that and using the population of 20-24 year olds as the denominator, shows that 3.5 per cent of the population aged 20-24 had been unemployed for more than six months. This is still a high figure.

For all the age groups, except the oldest one, the proportion of long-term unemployed people decreased during 1995. However, the proportion of young people who are long-term unemployed is still around two to three times higher than in the slowdown of the early 1980s.

The size of unemployment can be decomposed as the product of the inflow to unemployment and the duration of unemployment spells. For example, a reduced inflow to unemployment combined with an unchanged average duration means that unemployment falls. A constant inflow to unemployment combined with a longer average duration means that unemployment rises.

Table 7 presents a breakdown of unemployment by inflow (per week, as a percentage of the labour force) and duration (completed, in weeks).¹⁷ The completed duration denotes how long it takes, on average, to complete an unemployment spell, irrespective of whether the unemployment ends by the person getting a job or leaving the labour force.

¹⁷ Table 7 is calculated from $average\ unemployment\ rate = inflow \times average\ completed\ durations$. The calculations are performed on data on the average unemployment level during the year and the inflow to unemployment. However, this method is only approximate since the relation $average\ unemployment\ rate = inflow \times average\ completed\ durations$ is only valid in a flow equilibrium, i.e. when inflow to unemployment = outflow from unemployment.

Some trends are easily discernible from Table 7. From 1965 to 1994, the inflow to unemployment falls across almost the whole period and then starts to increase again in the 1990s, while duration increases continually (except for a small decline in the 'overheated' years in the late 1980s). Whilst both these trends relate to prime-aged people (25-54 years), it is among the elderly (55-64 years) that duration has increased the most since the mid-1960s.

Table 7. Unemployment Rate, Inflow and Average Completed Duration (per cent of labour force or weeks)

	16-64			25-54			55-64
	Unempl.	Inflow	Dura.	Unempl.	Inflow	Dura.	Dura.
1965-1969	1.8	0.27	6.8	1.4	0.18	7.8	14.2
1970-1974	2.2	0.19	11.5	1.6	0.14	12.4	24.2
1975-1979	1.9	0.17	11.5	1.3	0.10	12.8	23.9
1980-1984	2.9	0.19	15.5	1.9	0.12	16.0	38.8
1985-1986	2.7	0.17	15.5	1.9	0.12	16.9	42.2
1987-1988	1.8	0.12	14.5	1.3	0.08	16.9	46.4
1989-1990	1.5	0.10	13.8	1.1	0.07	15.4	39.0
1991-1992	3.7	0.18	20.6	3.1	0.13	23.7	40.2
1993-1994	8.1	0.28	29.5	7.0	0.26	27.4	48.3

Source: Björklund *et al.* (1996).

According to the Labour Force Surveys, the average on-going unemployment duration has approximately doubled since 1990 (see Table 8). The increase in duration of unemployment for men is larger than that for women.

Table 8. Average On-Going Unemployment Duration, 1986 to Second Quarter of 1996 (weeks)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996:II	1996:II
Total	16.6	18.7	18.1	16.5	14.7	16.3	21.1	23.5	27.6	27.9	26.6	28.0
- Men	17.6	18.4	18.7	17.9	15.3	17.1	21.9	24.7	29.3	28.3	28.1	30.2
- Women	15.3	19.0	17.5	15.1	14.0	15.1	19.8	21.4	25.2	27.3	24.7	25.2

Sources: Statistics Sweden (1996a), (1996b), (1996c), (1996d) and (1996e).

Note: The durations are measured on on-going spells. The figures referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

It is noteworthy that both the average completed and the average on-going unemployment duration in the mid-1990s exceed the Labour Force Survey definition of long-term unemployment.

However, there are indications that the lengthening of average duration is not only due to a general lengthening of unemployment duration, but also to very long

unemployment spells for a group of people. There are very serious problems stemming from the extent of long-term registrations at employment offices and the alternation of spells of unemployment with participation in labour market programmes¹⁸. This is in spite of minor indications (from statistics on registered unemployment) that during the temporary upturn of the economy in late 1994 and 1995, long-term unemployed people found work at a somewhat higher rate than did people who were unemployed for shorter spells.

An indication of the large extent of this problem comes from statistical sources of the National Labour Market Board¹⁹. In February 1996, there were 110,000 job-seekers who had been registered at an employment office for more than two years (of whom 65,000 had been registered for more than three years) and during that time never had a job (but they may have been or are participating in a labour market programme). A common characteristic of this group is low educational attainment (see Table 9).

Table 9. Educational Level of the Long-Term Registered at the Employment Offices in February 1996 (per cent)

<i>Educational level</i>	<i>Register time 2-3 years</i>	<i>Register time > 3 years</i>
Less than upper secondary school	41.8	41.1
Upper secondary school, 2 years or less	31.5	38.0
Upper secondary school, 3 years or more	16.6	13.0
Higher than upper secondary school	10.1	7.9
Number of registered (000)	45	65

Source: National Labour Market Board (1996c).

There is a positive correlation between time on the register and the proportion of people who have the income-related type of unemployment benefit. Among unemployed people who are on the register for less than 2 years, 60-70 per cent receive this type of unemployment benefit, whilst the benefit is received by 85 per cent of those registered for longer than 3 years.

The problem of alternating periods of being unemployed and participating in a labour market programme is illustrated by the fact that around 60 per cent of labour

¹⁸ See Ackum Agell *et al.* (1995).

¹⁹ See National Labour Market Board (1996b) and (1996c).

market programme participants in late 1995 had been registered at an employment office for more than a year.

The extent of recurrent unemployment is another serious problem. Since many of the people who have been, or are recurrently unemployed, have also been participating in labour market programmes when they were registered at an employment office, the problem of sandwiching periods of unemployment and programme participation is closely connected to the problem of recurrent unemployment.

One illustration of this is the fact that 75 per cent of the programme participants in late 1995, who were older than 24 years and had been registered at an employment office for less than 100 days, had previously (but not continually) been registered at an employment office. The majority of these people had ended their previous spell of unemployment less than six months previously.

The above problems reflect an ongoing and extensive imbalance in terms of education, skills and experience, between the type of labour supplied and the type of labour demanded by the Swedish labour market.

1.5 Main Trends in Job Creation and Job Loss

During the second half of the 1970s and the 1980s, the employment trend in the manufacturing sector (especially in engineering) was negative. This was also true for the construction sector, despite the boom in the late 1980s and early 1990s. The competitiveness in the manufacturing industry, that was persistently eroded in the 1970s and 1980s by relative unit labour cost increases, was (at least temporarily and partly) restored by repeated devaluations between 1976 and 1982. In the private services sector, especially in the financial and company services sector, the employment trend was positive during the second half 1970s and the 1980s. As in many EU and OECD countries, the employment trend in the agricultural and forestry sector in Sweden is negative.

In the late 1980s, it became increasingly hard for the sector exposed to international trade (mainly consisting of the manufacturing industry) to compete for labour, especially skilled workers. The public sector continued to grow, albeit at a slower pace than in the 1970s, and sheltered sectors, such as construction, expanded rather strongly in 1989-1990 (see section 1.8).

Eventually the labour market became increasingly overheated, with levels of unemployment falling to 1.6 per cent in 1990. Competition for labour pushed up

wages and productivity growth, that had been weak for a long time, declined further.²⁰

Table 10. Employment (16-64 years) in Different Sectors, 1990 - 1995 (thousands)

Sectors	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agricultural, forestry, etc.	174	170	161	154	145	140	137	136	124
Mining and manufacturing	1,002	1,002	1,011	988	924	839	772	761	803
- of which engineering	456	461	460	444	416	376	331	336	367
Construction	289	287	298	322	320	279	240	225	224
Private services	1,497	1,539	1,589	1,614	1,599	1,560	1,507	1,538	1,572
Local government	1,142	1,162	1,171	1,187	1,188	1,161	1,113	1,086	1,079
Central government	198	191	189	199	205	202	194	183	184
TOTAL	4,316	4,375	4,442	4,485	4,396	4,209	3,964	3,928	3,986

Sources: National Institute of Economic Research (1996 a); Statistics Sweden (1996a) and (1996b).

Note: The figures on total employment referring to 1992 and earlier are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993.

When the slump in both internal and external demand occurred in the early 1990s, the manufacturing (particularly the engineering) and construction sectors were very vulnerable, given previous developments. Thus, employment in these sectors was severely affected by the recession. From 1989 to 1994, employment in the whole mining and manufacturing sector fell by 250,000 jobs, corresponding to 24 per cent of employment in 1989 (see Table 10). In the construction sector, 97,000 jobs vanished during the period 1990-1994, corresponding to 30 per cent of employment in 1990. Since the development in private consumption was very weak or negative in the early 1990s, the repercussions for the retailing sector were severe. Other parts of the private services sector were not as severely affected. The net decrease of employment in the private services sector during 1990-1993 amounted to 107,000 jobs, corresponding to almost 7 per cent of employment in 1990.

Employment in the manufacturing sector responded rather quickly to the upturn in 1994-1995, while the employment trend in the construction sector was weak (see Table 10). Also, in contrast to the retailing sector, employment in the financial and company services sector responded quickly to the upturn of the economy. The net employment figures for the private services sector indicate an increase of around 4 per cent between 1993 and 1995, corresponding to around 65,000 jobs.

²⁰ See Erixon (1991).

It is, however, an oversimplification to say that the industrial crisis in Sweden started in the early 1990s. Apart from the contributing factors mentioned above, a factor which is sometimes highlighted is the lack of industrial renewal during the 1970s and 1980s.²¹ One reason for such lack of investment is that the repeated devaluations alleviated some of the cost pressures that generate technical developments for higher productivity.

Swedish industrial companies exhibited (with a few exceptions, notably telecommunications and pharmaceuticals) a weakness in developing high-technology industrial products and advanced services during the 1970s and 1980s.²² Important export branches where Sweden has a traditional comparative advantage (e.g. forestry), are characterised by a high degree of maturity. The reason for the recent buoyant growth in the forestry sector, for example, is not due to technological innovations but to increased world market prices and the depreciation of the Krona since the autumn of 1992.

From the 1960s, public sector growth continued without interruption until the late 1980s in the central government sector and until the early 1990s in the local government sector. The bulk of the expansion of the public sector occurred in the 1970s, while the increase in the 1980s was relatively minor.

This expansionary development came to an end between the late 1980s and early 1990s. A contraction of the (relatively minor) central government sector started in the late 1980s. During that time there was privatisation of government functions, so much of the contraction of the central government sector occurred in an accounting sense only. Employment in the larger local government sector started to decrease later, in the early 1990s. From 1991 to 1995, around 109,000 local government sector jobs vanished, corresponding to around 9 per cent of employment in 1991.

This development is expected to continue, although at rather slow pace. For example, it is anticipated that the local government sector will, as far as possible, avoid lay-offs of permanently employed personnel before 1998 (see section 1.9). Instead, possibly redundant personnel are to be offered vocational education opportunities, etc. and new hirings will presumably be few.

²¹ See for example Hamngren and Odhnoff (1996). In NUTEK (1994), problems concerning future structural transformation are studied.

²² In OECD (1994b), Sweden is mentioned as one of the countries (together with Germany, Japan and Denmark) that have had the largest shift out of low-technology manufacturing industries. However, the share of employment in high-technological sectors in 1991 is still relatively low, less than 14 per cent, compared to, e.g. United States (21 per cent), Japan (22 per cent), Germany (20 per cent) and France (18 per cent).

The recession during the early 1990s struck all regions in Sweden; densely populated city areas as well as sparsely populated so-called forest counties in the northern part of the country. In the latter counties, unemployment has historically been higher than in other counties (the only exception is one county, Blekinge, in the south-east of Sweden which also has very high unemployment). The extent of labour market programmes is traditionally higher in counties with high unemployment rates.

In 1995, the variation in the unemployment rate between the counties was from around 6 per cent to close to 12 per cent. This variation is small by international standards. The northern-most county of Sweden has the highest unemployment rate. In previous periods of recovery, the upturn in the forest counties has usually lagged behind the rest of the country, but according to recent statistics, this pattern was less accentuated during 1994 and 1995. The slow decrease in unemployment that started in 1994 and continued in 1995 was noticeable in all counties.

The importance of the establishment and expansion of new enterprises has been emphasised in political debate. Studies have shown that a proportion of the changes in labour demand is due to the establishment and closure of firms.

From 1985 to 1992 (a period covering both expansion of the Swedish economy and the beginning of the recession), the net decline in employment was -0.1 per cent. This change comprises gross expansion of 14.5 per cent - of which 6.5 percentage units comes from new establishments and 8 percentage units from expansion of existing firms - and contraction of 14.6 per cent - 5 percentage units as a result of closures and 9.6 percentage units as a result of contraction of existing firms.²³ A more detailed study covering the period from 1985 to 1989 shows largely the same pattern.²⁴

The establishment of new firms is of great importance for labour demand in Sweden. However, the high VAT rate (which applies not only to the wage part of the cost, but also to the payroll charges part) is sometimes pointed to as an obstacle to increased employment, especially the 'households' part of the private services sector.

1.6 Main Wage and Salary Trends

The wage structure - wage differentials according to gender, education and industry - is, in Sweden, very compressed, compared to that of most other

²³ See OECD (1994a).

²⁴ See Davidsson *et al.* (1994).

countries.²⁵ Since the 1960s, wage dispersion in Sweden has decreased markedly, both between sectors and within sectors.²⁶ In Table 11, the relative wage development from 1968 to 1991 for employed people, aged 18-65, is portrayed on two different measures. The first measure is the standard deviation for (log) hourly wages and the second is the ratio of the wages for high wage earners to the wages for low wage earners, i.e. the hourly wage for a worker in the 90th percentile (P90) in the wage distribution, to the wage for a worker in the 10th percentile (P10) in the wage distribution.²⁷

Table 11. Wage dispersion in Sweden, 1968-1991 (employees aged 18-65)

Year	Standard deviation (log hourly wage)	P90/P10
1968	0.456	2.64
1974	0.359	2.05
1981	0.311	2.00
1984	0.305	1.93
1986	0.341	1.99
1988	0.368	2.01
1991	0.356	2.09

Source: Björklund *et al.* (1996).

In 1968, the high wage earners relative wage was 2.64, falling progressively to 1.93 in 1984. After that, partly due to less centralised wage negotiations and wage drift, the wage dispersion started to increase. The trend, first to a more compressed wage structure from the early 1960s to the middle 1980s, and then to an increased wage spread after the mid-1980s pertains to all large groups of wage earners, in both the private and the public sector.

Since the late 1980s, it has become more common in the public sector to determine wages on an individual basis, both when a person starts a job and at annual intervals. (Sometimes collective agreements specify minimum increases for the annual revisions.) This replaces the previous central determination of wages according to positions. This decentralised wage system has contributed to an increased wage spread in the public sector, although this is still more compressed relative to the private sector.

²⁵ For a comparison of the wage differentials in the Nordic countries, see Westergård-Nielsen (1996).

²⁶ In Arai (1994), inter-industry wage differentials in Sweden are studied. The results indicate that, after controlling for individual and job characteristics, it is found that the ranking of these differentials is stable over time but the dispersion of wage premiums fell by 50 per cent during the period 1968-1981.

The differences in remuneration related to education are relatively small in Sweden, compared to other industrialised countries. The schooling premium declined in the 1960s and 1970s, but increased in the 1980s. This can be explained by the bargaining system, but also by the changes in educational attainment in the labour supply.²⁸

However, in the private sector remuneration related to education is considerably higher than in the public sector. This difference is sometimes called 'the double imbalance', indicating that relative wages for highly educated people are lower in the public than in the private sector, whereas relative wages for people with low education levels are higher in the public sector. Workers with longer post-secondary education continue to have lower relative wages in the public sector in the early 1990s, despite the earlier introduction of decentralised wage determination.²⁹

The wage differential between men and women has declined since the early 1960s.³⁰ For blue-collar workers, the female-to-male hourly wage in mining and manufacturing increased from around 70 per cent in 1960, to around 90 per cent in 1980. In the 1980s, the differential has grown slightly. For white-collar workers in the same sector there has been a more gradual increase in the female-to-male monthly wage - from a little more than 50 per cent in 1960, to around 75 per cent in 1990.

A study based on individual data shows that in a total wage differential of 24 per cent between men and women, 12 percentage units were explained by differences in individual characteristics (e.g. education, tenure, work experience, etc.), 9 percentage units by differences in remuneration and the remaining 3 percentage units by a combination of differences in characteristics and remuneration.³¹

The compression of the wage structure in Sweden is associated with the policy of wage solidarity. In the late 1940s, two Swedish union economists, Gösta Rehn and Rudolf Meidner, formulated the so-called Rehn-Meidner model. A solidaristic wage policy is a central part of the model emphasising the principle of 'Equal work should be equally paid - without considering the profitability of the individual company' (see section 4.1 for an overview of the model).

²⁷ For a worker in P90, 10 per cent of all workers have a higher wage, whereas for a worker in P10, 90 per cent of all workers have a higher wage.

²⁸ See Edin *et al.* (1994). For example, the proportion of people in the labour force with university education increased markedly during the 1970s and the first half of the 1980s. This can explain (at least part) of the fall in relative wages for university educated people that occurred during the same period.

²⁹ See Zetterberg (1994).

³⁰ See Svensson (1995) for an analysis of the long-term development.

³¹ See Asplund *et al.* (1996).

In the 1960s and 1970s, the emphasis on the policy of wage solidarity increased, to encompass equalisation of wages irrespective of differences in work tasks, through focusing on increases in pay for low-wage earners. In the 1980s, the wage spread began to widen, when settlements at industry and local levels were increasingly used to compensate for centrally negotiated agreements for increases in pay for low-wage earners.³²

During most of the 1970s and the 1980s, a constant source of problems was that the increases in Swedish nominal wage costs exceeded corresponding increases in competitor countries. The average increases in the unit labour costs in the business sector were around 10½ per cent in the 1970s and 7½ per cent in the 1980s. The overheated labour market in 1989-1990, combined with the multi-tiered negotiating system and wage drift, tended to push up the overall level of nominal wage cost increases.

Due to the severely deteriorating situation on the labour market, the increases in nominal labour costs in the early 1990s were low in a historical perspective. This development has been accentuated by reduced pay-roll charges (most of them in 1992 and 1993) and a shorter statutory holiday entitlement (by two days in 1994). In the business sector, nominal labour costs increased on average by 2.5 per cent per annum from 1992 to 1994 - on a par with most competitor countries.

Average hourly earnings in 1995 for workers in the private sector are 80-95 SEK for the majority of industries. To this should be added statutory and negotiated pay-roll charges of around 35 - 40 per cent (depending on the central agreement).

Given the historical background, there is still doubt how the Swedish wage negotiation system will react to a possible larger fall in unemployment. Despite the weak labour market situation, there are indications that wage increases will be relatively high for both 1996 and 1997, around 4½ to 5½ per cent per annum.³³

Although the nominal wage increases in the late 1970s and in the 1980s were exceeding the corresponding wage increases in competitor countries, they did not keep up with the domestic inflation rate, except for some years in the latter half of the 1980s. During the 1990s, however, there have been some increases in real wages.

Relative unit labour costs in Sweden, measured in common currency, have plummeted since the turn of the year in 1992. This is due mainly to the sizeable depreciation of the Krona since late 1992, but also to high productivity growth.

³² Analyses of wage dispersion and union action in Sweden are given in Hibbs (1990) and Locking (1996).

³³ See National Institute of Economic Research (1996b) and (1996c).

Relative unit labour costs in 1993 were around 30 per cent lower than in 1991 and continued to fall around 2½ per cent in 1994. However, in 1995 there was an increase of 2½ per cent, partly due to an improved labour market situation.

1.7 Main Trends in Working Time and Fixed Terms Contracts

The average working week for employed people has been around 36-37 hours from 1975 to 1995. There are differences for men and women - the average for men has been around 40-41 hours and for women around 31-33 hours.

Self-employed people work more; their average working week has been around 46-47 hours from 1975 to 1995.

From 1987 to 1995, more than 75 per cent of people who were permanently employed worked at least 35 hours per week. Around 20 per cent worked between 20-34 hours per week and less than 3 per cent worked between 1-19 hours per week.

Over the same period, around 60 per cent of people on fixed term contracts worked more than 35 hours per week. Around 25 per cent of them worked between 20-34 hours per week and around 12-15 per cent worked between 1-19 hours per week.

Overtime, measured both as a percentage of hours actually worked and as the proportion of total employees working overtime, has increased somewhat since 1992. This has been presented as a factor that prevents new hirings and thus acts as an obstacle to a drop in unemployment (or to an increase in participation rates).

Half of the fall in the number of working hours between 1990 and 1993 has been recovered in 1996, while only around 10 per cent of the fall in employment has been recovered in the same period. A continuing increase in average working hours contributed to a reduction in the growth of the number of people employed during the second half of 1995. Prior to this, lower absenteeism was the primary reason for the rise in average working hours.

From 1987 to 1995, about 10-14 per cent of total employment has been on the basis of fixed term contracts. Between 1987 and 1991, the trend to fixed terms was decreasing, probably because in the 'overheated' labour market of the late 1980s, when few people were willing to accept temporary jobs. The trend increased from 1991, up to 1995. When employment started to rise in 1994, it was mostly the number of fixed term contracts that increased, while the increase in permanent jobs was smaller and lagged behind. In 1994, 70 per cent of all new hirings were on fixed term

contracts, compared to 50 per cent in the still 'overheated' year of 1990.³⁴ The fall in employment in the latter half of 1995 and in 1996 can be attributed to a corresponding fall in the number of fixed term contracts.

Women and young people are over-represented among those employed on fixed term contracts. In 1995, women accounted for 48 per cent of all employed people, but 57 per cent of those employed on fixed term contracts were women. Similarly, people in the 16-24 age group constituted 11 per cent of all employed people, but 37 per cent of those employed on fixed terms contracts.

Immigrants are highly over-represented among those with fixed term contracts. This is particularly so for people from non-European countries and those who arrived in the 1990s. In 1994, of all people employed aged 25-54, 12 per cent had fixed term contracts while 17 per cent of employed immigrants had fixed term contracts. 24 per cent of employed immigrants who arrived in the 1980s had fixed term contracts and 42 per cent of those who arrived in the 1990s had fixed term contracts.³⁵

1.8 Main Factors Behind the Development of Unemployment

The recession in the early 1990s was the most severe recession to hit the Swedish economy since the 1930s. At 5 per cent, the fall in real GDP from 1991 to 1993 has been greater than in any other OECD country, except Finland.

Before this dramatic downturn, the Swedish labour market was characterised by very low unemployment figures by international standards. During the economic slowdown in the early 1980s, the unemployment rate peaked in 1983 at 3.5 per cent, which at that time was seen as an alarmingly high level.

The deep recession in the early 1990s was preceded by a period of economic boom, when the demand for labour was extremely high. In 1989, the relative unemployment rate fell to only 1.5 per cent.

The overheated Swedish economy in the late 1980s aggravated wage formation problems that had been of a more or less constant nature since the early 1970s. Swedish nominal labour costs persistently increased more than the labour costs in competitor countries. In order to counteract the effects of the subsequent increases of relative unit labour costs on the national economy, the Krona, was devalued on five occasions, by approximately 40 per cent between 1976 and 1982.

³⁴ See Holmlund (1995).

³⁵ See Wadensjö (1995).

In addition to the then international economic upturn, one of the main factors behind the economic boom during the second half of the 1980s, was the deregulation of the domestic credit market introduced in 1985 which, *inter alia*, made loans for housing investments and for private consumption more easily accessible. The net cost of borrowing for households was low as a result of comparatively high marginal tax rates for many income earners. As a result of that, deficits in interest income were tax deductible, coupled with comparatively high marginal tax rates for many income earners.

Prices on real estate and stocks increased dramatically during the second half of the 1980s. Households were less restricted by their current income when deciding their level of consumption, since the deregulation of the credit market had opened up the possibility of using such assets as collateral. Private consumption grew to exceed aggregate disposable income. Thus, the household saving rate became negative during the late 1980s and in 1990.

The first step of a new tax reform was introduced in 1990. The second step, with more substantial changes than the first, was launched the following year. Included in this reform was a lowering of the marginal tax rates on income combined with higher indirect taxation, a limit on the deficit in interest income that was tax deductible for households and a separate, general tax rate of 30 per cent on income from capital.

Households reacted promptly to the incentives to save, implied by the tax reform and the reversal of the saving rate was substantial. The rate, which had been slightly negative in 1990, increased to 3.1 per cent in 1991. It continued to increase rapidly in 1992 to 7.7 per cent, to 8.3 per cent in 1993 and to 8.6 per cent in 1994. In 1995, it fell somewhat, to 8.2 per cent.

An additional factor behind the fast increase of the household saving rate in the early 1990s was the reduction of certain benefits in 1992 and 1993, e.g. sickness benefits and pension disbursements. Also, the rising unemployment rate and the growing number of redundancies increased households' propensity to save, as well as their insecurity concerning developments in the private economy. Another factor which contributed to increased household saving was that prices on real estate started to fall in the early 1990s. The price decrease continued steadily for some years.

At the same time, the economic slowdown in the OECD countries that began in 1989, became much more accentuated. During the period 1991-1993, the annual growth in real GDP in OECD was around 1 - 1½ per cent. Investments fell markedly in

most OECD countries, with that in Sweden being much more pronounced than elsewhere, except Finland.

Another important factor which contributed to the fall in domestic demand, was the heavy losses banks had made on loans given during the late 1980s, when lending greatly expanded. The losses started to appear during 1991 but were seriously aggravated in 1992.

The losses were mainly due to falling asset prices, not least on real estate, eroding loan collateral, and high interest rates, leading to a growing number of borrowers who were unable to pay interest and amortisation. Thus, the stock of non-performing loans increased. For some banks the losses were so large that they threatened to use up most or, in certain cases, all of these banks' capital. A number of banks declared their need for State support, which was provided.

The sizeable fall in investments in construction is closely related to the bank crisis. Reduced housing subsidies aggravated the decrease in residential investment.

These factors lie behind the very drastic slump, both in domestic and international demand, in the early 1990s. Unemployment started to increase in late 1990, albeit from an extremely low level. However, it continued to rise very rapidly to levels surpassed only by those in the early 1920s and 1930s. One major contributing factor was the high real interest rates that prevailed during the recession.

During the second half of 1992, the financial markets were characterised by recurrent turbulence, stemming from uncertainty concerning future co-operation within the EMU. As investors turned to stronger currencies, the D-mark was strengthened and weaker currencies were put under pressure. As a result, Finland and the United Kingdom let their currencies float in September 1992. The Swedish Krona was also under severe pressure, mainly because of rising unemployment, the rapid worsening of public finances and an unclear political situation.³⁶

The confidence in the fixed exchange regime was further weakened since Sweden had previously devalued the Krona on several occasions. In May 1991, the Krona had been pegged to the ECU,³⁷ but at that time no exchange rate adjustment was made. This measure was taken as a preliminary for Sweden to become a member of the European Union.

³⁶ The last restrictions in foreign exchange controls were abolished in 1989.

³⁷ Since 1982, the Krona had been pegged to a currency basket consisting of currencies from 15 countries, where the weights mainly reflected the different countries' relative importance as trade partners.

To defend the fixed exchange rate, the *Riksbank* increased the marginal interest rate³⁸ drastically. For a brief spell, the marginal interest rate peaked at 500 per cent in September 1992. Shortly after that, the Government and the opposition together presented two 'crisis packages' consisting of several fiscal restrictions, including an increase in the age of retirement, a reduction of certain benefits such as sickness benefits and a shortening of the statutory holiday entitlement.

This political agreement temporarily dampened speculations. However, currency outflows started to accelerate again at the end of October 1992. In the period from 12 to 19 November, the net currency outflow totalled almost 160 billion SEK. In this situation, the Governing Board of the *Riksbank* considered that the defence of the fixed exchange rate was no longer tenable and chose 19 November 1992 to float the Krona. This led to an immediate depreciation of approximately 10 per cent. During 1993 the Krona continued to weaken, albeit with a few temporary appreciations. From January 1994 to August 1996, the Krona has fluctuated against the ECU at around 15 - 25 per cent lower than the previous fixed exchange rate. The tendency during the latter half of 1995 and in 1996 has been towards a strengthening of the Krona.

Soaring exports were the result of the weak Krona, combined with the strong upturn in international demand that started in 1994. Despite negative growth in the export markets most important to Sweden during 1993, Swedish exports increased through improved market shares. The increase in exports continued at a high rate in 1994 when the international upturn began. Thus, in 1993, 1994 and in the first half of 1995, the Swedish economy was characterised by a buoyant export sector and a domestic sector in which demand was extremely low. In the latter part of 1995, exports declined somewhat.

The capacity utilisation in most parts of the export sector was high, but low in the domestic sector in 1993. Demand from households was still weak. The extent of inflationary pressures varied, therefore, throughout the economy. The inflation rate (measured as changes in the Consumer Price Index) reached 4.5 per cent in 1993 -

³⁸ The marginal interest rate was, until 1 June 1994, the *Riksbank's* primary interest rate policy instrument. The marginal interest rate determined the overnight interbank rate.

Monetary policy is based on the central bank being able to influence the stock of liquid assets. In this context, liquid assets are (somewhat simplified) notes and coins plus the banks' balances with the central bank. The banks and the non-bank public both need liquid assets for their current payments. The influence of the central bank derives from being in a position to determine the interest rate at which it supplies such liquid assets. In Sweden, this interest rate was known as the marginal interest rate.

On 1 June 1994 the *Riksbank* implemented a new system of policy instruments for short interest rates, allowing more flexibility of interest policy. The former interest rate scale was replaced by an interest rate corridor with a ceiling, the lending rate, and a floor, the deposit rate. The marginal interest rate was replaced by the repo rate as the *Riksbank's* primary interest rate policy instrument.

about twice as high as in 1992. This increase was due mainly to raised import prices caused by the depreciation of the Krona. In 1994 and 1995, the yearly inflation rate was again only around 2½ to 3 per cent. Historically, these figures are extremely low for Sweden.

However, the low inflation rate did not prevent high nominal interest rates. As a result, real interest rates soared. The deterioration of public finances, mainly due to lower tax revenues, expenses for labour market policy measures, unemployment benefits and other costs related to high unemployment, increased the risk premia on long-term interest rates. There were doubts among investors concerning the ability of policy makers to tackle the high budget deficit. The earlier rapid debt accumulation, combined with future possible wage formation problems, revived fears of possible future problems in containing inflation.

In 1993, the deficit in the general government financial balance amounted to more than 13 per cent of GDP. Despite benefiting from the termination of support to the banking system, the corresponding figure for 1994 was higher than 10 per cent of GDP. Debt service and labour market policy (passive and active measures) are major parts of the continuing high level of government expenditure. In 1995, the deficit amounted to around 7 per cent. As a consequence of these accumulated deficits and the negative development of GDP, the debt-to-GDP ratio rose rapidly during the period 1990-1994, from less than 50 per cent to close to 85 per cent, and remained approximately constant in 1995.

The debt stabilisation strategy and the weakening in the growth of the economy, noticeable since late 1995, partly due to an international slowdown, have contributed to declining interest rates. However, financial market confidence has not been completely restored. Although the fiscal problems now appear somewhat less serious, there are doubts whether the wage formation process will generate wage increases on a par with competitor countries, especially if unemployment eventually increases. The margin between the long-term (5 years) interest rate in Sweden and in Germany was still around 4 per cent in 1995 and declined to around 2 per cent in the first half of 1996.

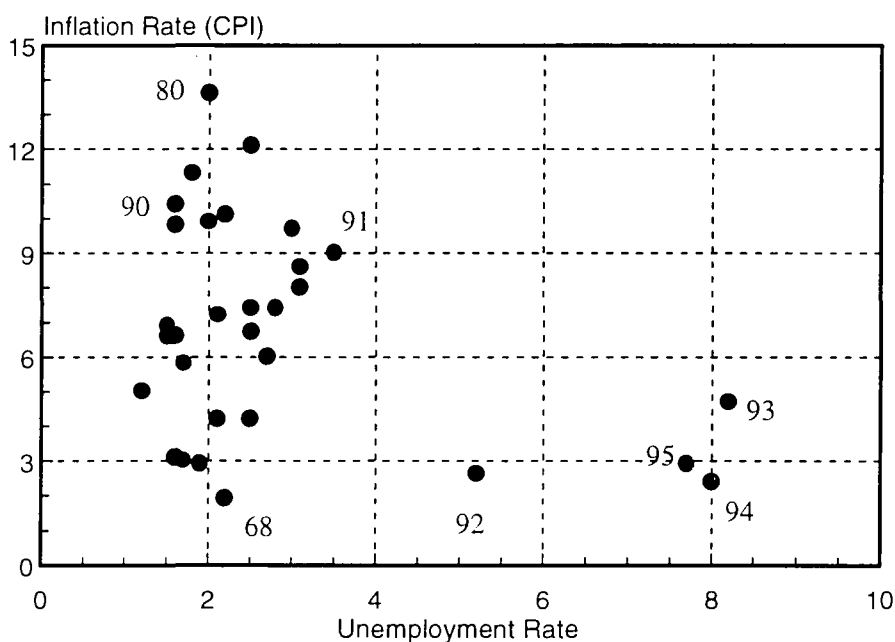
The weakening economic growth is also a contributory factor to the deterioration in labour market performance. The number of employed and vacancies have levelled-out, while the number of redundancies has increased. A continuing weak labour market will cause households to be cautious and may dampen private consumption.

The depth and longevity of the present recession has clearly indicated that the Swedish economy is, and has been, much more vulnerable to macroeconomic shocks than previously believed. The slump in aggregated demand occurring in the early 1990s has few counterparts in Swedish economic history.

However, although the slump in demand is the major cause of the recession, there are other structural and institutional problems, such as the inflation-prone wage formation system, which explain why the road to economic recovery is not straightforward.

Figure 4 shows the relationship between the inflation rate and the unemployment rate between 1964 and 1995. As can be seen, the observations for the years 1992-1995 are outliers.

Figure 4. Unemployment and Inflation Rates in Sweden, 1963-1995 (per cent)



Sources: Statistics Sweden and National Labour Market Board.

Apart from the wage bargaining system, there are also other, structural factors that have contributed to push the NAIRU (Non-Accelerating Inflation Rate of Unemployment) very slowly upwards. However, up to 1990-1991, the NAIRU has been very stable and on a low level.

Contributing structural factors include the increased compensation and coverage ratios and the extended benefit periods in the unemployment insurance system. However, the extension of the benefit period had already been implemented in

1974 and changes in the compensation and coverage ratios have taken place step by step. Thus, the rapid increase in unemployment in the early 1990s cannot have been triggered by changes in the unemployment compensation system.

Two main methods have been used to estimate the equilibrium unemployment. In one method, the starting point is to try to estimate the wage setting curve and the demand curve for labour, (e.g. Forslund, 1995). Another and simpler method uses the concept of the Phillipscurve and identifies the level of unemployment that yields equality between the actual and expected rate of inflation (e.g. Wadensjö, 1987; Holmlund, 1990). Both methods have drawbacks and the results are to be interpreted with more than the usual caution.

The results in Wadensjö (1987), Holmlund (1990) and Forslund (1995) indicate that, since the early 1960s, the trend has been a slight increase in equilibrium unemployment. Equilibrium unemployment in the 1980s would, according to their results, lie between 2-3 per cent, with an underlying upward trend.

In Forslund (1995), data from the early 1990s (up to and including 1993) are included in the estimates. He finds that 'if we take the results at face value', the rise in equilibrium unemployment between 1990 and 1993 is of an order of 1-4 percentage points. Forslund points out that this appears to be 'far smaller than the normal European rise in equilibrium unemployment'³⁹ and that this rise is also below the actual increase (6.6 per cent) in Swedish unemployment from 1990 to 1993 .

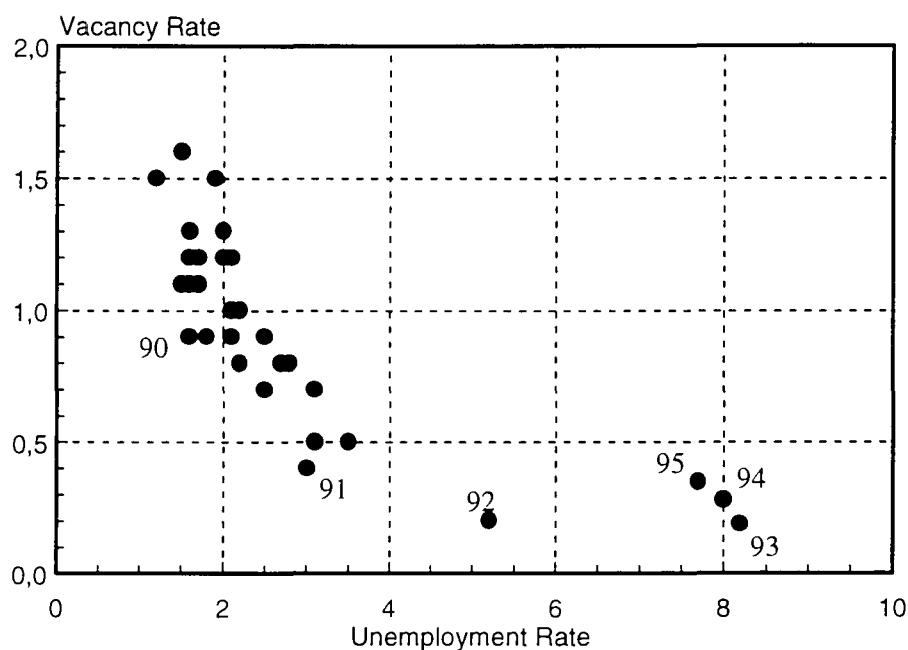
Forslund notes that if the structural variables used in the equation (especially the wedge between value added at producer prices and at factor cost), actually reflect demand variables, the estimates of the rise in equilibrium unemployment may in fact be biased upwards. In all, the results indicate that there may be 'good reasons for optimism in the future regarding future unemployment developments'.⁴⁰

One of the reasons for an increased equilibrium unemployment is a decrease in the matching efficiency of the labour market. If the matching efficiency falls, e.g. due to a mismatch between skills demanded and supplied, or more generous benefits or less monitoring of search behaviour, the U/V-curve will shift outwards. That is, at a given number of vacancies, unemployment will increase. The U/V-curve has shifted outwards during the 1980s in many European countries. In contrast, it has been rather stable up to the early 1990s in Sweden (see Figure 5).

³⁹ Forslund (1995), p. 48-49.

⁴⁰ Forslund (1995), p. 49.

Figure 5. Unemployment and Vacancy Rates in Sweden, 1963-1995 (per cent)



Sources: Statistics Sweden and National Labour Market Board.

According to this figure, the increase in unemployment during 1990-1993 can be interpreted as a movement along a convex U/V-curve, rather than an actual shift of the U/V-curve. Thus, the increase in unemployment during the period 1990-1993 can hardly be explained by a deterioration in the match between the numbers of unemployed people and the number of vacancies. For 1994 and 1995, however, a small outward shift is discernible.

The above U/V-curve is based on registered vacancies. Such statistics are, however, problematic to interpret because of variations in firms' willingness to report vacancies to employment offices. If the U/V-curve is adjusted to take account of a probable decrease in the proportion of vacancies which are reported, the U/V-curve shifts outwards.⁴¹ Also, the outward shift in 1995 in Figure 5 becomes greater when looking at the *average duration* of vacancies for different years (instead of the vacancy rate), and comparing it to the unemployment rate for the corresponding year.⁴²

Considering the extensive active labour market programmes in Sweden, are the above figures misleading because of these programmes? Would there be a different

⁴¹ See Farm (1996).

⁴² See Holmlund (1996).

picture if programme participants were included in a measure of 'total' unemployment? It appears that the broad picture would not change much.⁴³ The number of programme participants varied between 1 and 2 per cent of the labour force from the mid-1960s to the late 1980s. Other indicators of labour market performance, e.g. employment to population ratios, yield a positive picture of the performance of the Swedish labour market, compared to other countries.

1.9 Macroeconomic Policies and Forecasts

The Social Democratic government, which took office after the general election in September 1994, has declared in the *Spring Fiscal Policy Bill* (April 1996) that the reduction of unemployment is to be given the highest priority. The goal, which is admittedly ambitious, is to halve unemployment from 8 per cent to 4 per cent, by the year 2000.

In order to attain this goal, interest rates have to be lowered and this can only be achieved by putting public finances on a sound basis. Intermediate goals are to stabilise central government debt relative to GDP in 1996, to limit the fiscal deficit to less than 3 per cent in 1997 and to achieve fiscal balance in 1998.

The following five-point programme is suggested in the *Spring Fiscal Policy Bill*:

- 1) The programme on savings and income-enforcements of 118 billion SEK will not be changed.
- 2) The overdrafts within the fiscal year 1995/1996 will be financed by measures taken by the concerned Ministry, when this has been deemed possible.
- 3) Suggested reforms, e.g. the extensive expansion of resources to education, will be fully financed.
- 4) A three-year expenditure limit is placed on the state sector.
- 5) The convergence programme that the Government handed over to the European Commission in June 1995 is to be followed up, with a check every six months.

A new 'contract for co-operation' is needed in the fight against unemployment. This consists of three main areas:

- i) The wage formation process where the Government invites the social partners for talks.

⁴³ See Holmiund (1996).

- ii) The local governments and county councils, where the Government agrees not to change State grants and will postpone the introduction of a mandatory balanced budget requirement until 1999 (local governments) and 2000 (county councils). In exchange, it has been agreed that local governments and county councils will aim not to increase taxes during 1997 and 1998 and, as far as possible, avoid lay-offs of permanently employed personnel.
- iii) Europe, where the Government will work for a broad and common strategy in the fight against unemployment.

In the *Spring Fiscal Policy Bill*, it is further emphasised that the education sector must be expanded and improved, in order to upgrade competences and to facilitate the matching of skills supplied and demanded by the future labour market. The concept of 'life-long learning', i.e. recurrent education and competence development in the work place, is emphasised.

Accordingly, regular education is to be expanded with 100,000 new places in adult education and 30,000 places in the university sector. The areas given most emphasis are natural sciences, technology and languages. This initiative replaces the scheme for temporary educational places that had been financed through active labour market policy measures. Thus, the net additional number of people in education will be lower.

In the two extensive *Employment Bills* (June 1996), this focus on education is elaborated in detail. The municipalities have primary responsibility for the implementation of this project, although they will receive State grants. Unemployed people, aged between 25-55, will be given the opportunity to study at a compulsory or upper secondary school level with a study grant corresponding to unemployment insurance.

According to the forecast in the *Spring Fiscal Policy Bill*, the Swedish economy in 1996 will be characterised by a marked weakening. Export growth will slow down significantly. A continuing weak labour market will cause households to hold back on consumption. However, real interest rates have decreased, especially short term rates, which creates improved conditions for investment as well as for private consumption.

Inflation is expected to be low, around 2 per cent, despite relatively high wage increases which means that real wages will increase. Notwithstanding the generally weak economic situation, with a GDP growth of less than 1.5 per cent, unemployment will fall due to an increased number of people participating in labour market programmes. The public sector deficit will continue to decrease.

During 1997, the economic situation is expected to improve. Swedish exports will benefit from an anticipated international recovery. Continuing low inflationary pressure and lower interest rates will stimulate growth. A small decrease is expected in the unemployment rate, but the number of people in labour market programmes is expected to remain the same as in 1996.

For the medium-term outlook (up to 2001) in the *Spring Fiscal Policy Bill*, there are two scenarios - the base alternative and the high growth alternative. The base alternative illustrates growth with relatively moderate assumptions regarding the scope of recovery, without any inflationary problems. In this scenario, unemployment in the year 2000 would be less than 6 per cent, while the proportion of labour market programme participants would be less than 4 per cent.

The high growth alternative describes growth with, among other things, well functioning wage formation leading to a decline in unemployment to 4 per cent by the year 2000. This scenario predicts the same proportions of labour market programme participants as in the base alternative.

The forecast from the National Institute for Economic Research in August 1996 anticipates a similar GDP growth compared to the *Spring Bill*, but somewhat higher unemployment. They are slightly more optimistic concerning GDP-growth in 1997. Unemployment is, however, expected to be in the 7 per cent range and the number of people in programmes is expected to be about 5 per cent of the labour force, as in the *Spring Fiscal Policy Bill*.

It is important to consider the degree of persistence in unemployment when making predictions of future trends in unemployment. There have only been a few studies of the degree of persistence of Swedish unemployment. One recent study, *Assarson and Jansson (1995)*, indicates that unemployment in Sweden is very persistent, although the sources of persistence are left unexplained. *Holmlund (1996)* reports a trend increase in unemployment persistence between 1970 and 1995.

2 LABOUR MARKET INSTITUTIONS

2.1 Public Institutions

The most important governmental institutions in the area are:

- *Arbetsmarknadsdepartementet*, the Ministry of Labour
- *Arbetsmarknadsverket* (AMV), the Labour Market Administration
- *Samhall*, the company for sheltered workshops
- *AmuGruppen*, the authority for labour market training
- *Statens Invandrarverk* (SIV), the National Immigration and Naturalisation Board
- *Arbetskyddsstyrelsen*, the National Board of Occupational Safety and Health
- *Arbetsdomstolen* (AD), the Labour Court.

The Ministry of Labour is responsible for the formulation of labour market policy, immigration policy and policy on the work environment. In a tradition dating back to the 17th century, central autonomous bodies such as *Arbetsmarknadsstyrelsen* (AMS), the National Labour Market Board and the central authority of the Labour Market Administration, have had a strong position.

In practice, the National Labour Market Board had already been established in 1940 when a temporary organisation was set up and the municipal and county employment exchanges were nationalised as a way of strengthening the mobilisation of Sweden's resources in the war period. Before 1940, several different authorities had been in charge of different parts of labour market policy. The temporary organisation was made permanent in 1948.

Labour market policy in Sweden, with some exceptions, is organised within *Arbetsmarknadsverket* (AMV), the Labour Market Administration. This is a governmental administration on three levels - national (the National Labour Market Board), county (24 counties) and local. The total number of employment offices is about 380, with at least one in every municipality. About 50 of the employment offices specialise in a specific industry or occupational category. The National Labour Market Board is also in charge of about 100 *Arbetsmarknadsinstitut* (Ami), Employability Institutes, centres for vocational rehabilitation and qualifying vocational rehabilitation.

The National Labour Market Board, together with the government and *Riksdagen*, the Swedish Parliament, outlines the general framework of labour market policy and

determines the rules of the different programmes. The Board also decides on the division of the budget for programmes in different counties. Almost all projects within the programmes are decided on at the county level. The employment offices make decisions about individuals' placement in programmes. The formal decisions are in some cases taken at the county level, but the real decisions are also in those cases taken by the staff of employment offices. They decide who will get labour market training, a temporary public job, an employment subsidy, a job in a sheltered workshop or any of the other alternatives.

In the *Employment Bills* (June 1996, see section 6.1), the Government proposes that labour market policy should be more decentralised and that the role of the municipalities should be reinforced.

The sheltered workshops have been organised since 1980 in a separate entity, called *Samhall* (earlier *Samhälls-företag*).⁴⁴ Before 1980 the sheltered workshops were mainly organised by municipalities and counties. *Samhall* has 17 subsidiary regional companies and 3 subsidiary companies specialising in fields in which *Samhall* has a particular expertise. The number of workplaces is greater than 800. In total about 32,000 people are employed by *Samhall*; in 1995, 29,000 of them were disabled people.

Up to 1986, labour market training was organised by the National Labour Market Board, mainly with the National Board of Education, which was at that time the central authority for education. In 1986, a new authority for labour market training was founded, *AmuGruppen*. The National Labour Market Board buys services from this organisation which has training centres all over the country, and also from municipal schools and other training providers. The share of labour market training financed by the National Labour Market Board which the Board buys from *AmuGruppen* has gradually decreased from 74 per cent of the participants in 1989/90, to 36 per cent in 1994/95.⁴⁵ Increasingly, *AmuGruppen* also sells courses to other than the National Labour Market Board. 23 per cent of the total revenues of *AmuGruppen* in 1995 came from sources other than labour market training.

Statens Invandrarverk (SIV), the National Immigration and Naturalisation Board, was founded in 1969 as a central authority dealing with the control of immigration, granting Swedish citizenship, and promoting integration of immigrants into the Swedish society. Since 1985, SIV has also had the responsibility for administration of

⁴⁴ See *Samhall* (1996).

⁴⁵ See National Labour Market Board (1995a). *AmuGruppen* (1996), in its annual report for 1995, reports an increase to 42 per cent at the end of 1995.

the reception of refugees coming to Sweden, which had earlier been the responsibility of the Labour Market Board. The present government has declared its intention to reorganise SIV, dividing it into two authorities; one dealing with the control of immigration, one with the integration of immigrants.

Arbetarskyddsstyrelsen, the National Board of Occupational Safety and Health, founded in 1949, has the responsibility for producing binding regulations on industrial safety and is also the central authority for *Yrkesinspektionen*, the Industrial Safety Inspectorate, which has the main responsibility for controlling the work environment at work places.

Arbetsdomstolen, the Labour Court (AD), was founded in 1928 to solve conflicts regarding the interpretations of collective agreements and violations of collective agreements. The scope of the Labour Court was increased in the 1970s, when several new labour laws were introduced. The Labour Court mainly settles disputes between parties to collective agreements, i.e. unions, employers and employers' associations. The cases in the Labour Court are decided by seven judges, two are from the employer side, two are from the employee side and three are independent. The number of new cases brought before the Labour Court in 1993 was 320, of which 274 were from the employee side and 46 from the employer side.

2.2 The System of Industrial Relations

The great majority of all employees and employers in Sweden are organised in unions or employers' associations. Even those who are not members are covered, in most cases, by collective agreements.

2.2.1 Employers' Associations

The main employer association is *Svenska arbetsgivarförbundet* (SAF), the Swedish Employers' Confederation, which organises private sector employers. The organisation, was founded in 1902 and, in a legal sense, is owned by the firms who join the association. The members of the association are organisations representing different industries. The number of joint owners was 42,400 in 1995, on average they had in their employ 672,000 blue collar workers and 523,000 white collar workers in 1994. Besides SAF there are a few small employers' associations in the private sector and an employers' association for non-profit employers, *Arbetsgivaralliansen*. The co-operative sector has a separate association, *Kooperationens Förhandlingsorganisation* (KFO).

During the first decades of the SAF's existence, there were several independent industry organisations, but these have since joined the SAF one by one. The members (owners) of the SAF are also members of industry-wide organisations, the most important of which is that for the engineering industry, *Verkstadsindustrin* (earlier *Verkstadsföreningen*). The relative strength of the industry level organisations and the SAF has varied over time. Since the early 1980s, the industry level organisations have enforced their position.

There are three important employer organisations for the public sector:

- *Statens arbetsgivarverk* for central government,
- *Kommunförbundet* for the municipalities and
- *Landstingsförbundet* for the counties (mainly the health sector).

Together they employ more people than the SAF. In 1994 the number of people employed in the public sector was 1,392,000. Of them, 249,000 were employed by central government, 735,000 by the municipalities and 275,000 by the counties.

2.2.2 Trade Unions

Sweden is, together with Denmark and Finland, the most unionised of the industrialised countries. Close to 90 per cent of all employees are members of a union and even more are covered by collective agreements.⁴⁶ Unionisation is high for all groups. Young people and part-time workers make up the majority of those who are unorganised.

The largest organisation is *Landsorganisationen* (LO), the Swedish Trade Union Confederation, founded in 1898. In 1994, 2,230,000 workers were members (including retired people who continue to be members) of the unions that form LO. LO organises blue collar workers in both the private and the public sector. In common with its counterpart on the employer's side in the private sector - the SAF - the LO member unions are organised according to industry and not according to occupation. As is the case for the SAF, during the 1980s the industry level organisations have been strengthened in relation to the LO. The largest unions are those for workers employed by the municipalities and workers in the engineering and metal industries. Only a few small unions representing blue collar workers exist independently of the LO.

⁴⁶ See D'Agostino (1992) for the development of unionisation over time.

The most important unions beside those belonging to LO are those belonging to the TCO and the SACO. *Tjänstemännens Centralorganisation* (TCO), the Swedish Confederation of Professional Employees, founded in 1944, is the central body representing white collar worker unions; it had 1,308,000 members in 1994. Unions which are members of the TCO, and the cartels they form, are the parties to wage agreements. The TCO has never been part of wage negotiations. The third of the central union organisations is the *Sveriges Akademikers Centralorganisation* (SACO), the Swedish Confederation of Professional Associations which, as its name suggest, represents members of the professions or more generally employees and self-employed people with a university education. The SACO, which was founded in 1947, had 385,000 members in 1994 (296,000 of them were employees, many of the others are university students who have already joined the union, or are self-employed people). Like the TCO, it is not a party to wage bargaining. The separate unions of the SACO and the cartels they form (often with TCO unions in private sector bargaining) are the counterparts of the employers in wage bargaining.

2.2.3 Wage Bargaining

From the middle of the 1950s, up to the early 1980s, collective bargaining in Sweden was highly centralised. The centralised wage bargaining was in practice a prerequisite for the implementation of the Rehn-Meidner model and the policy of wage solidarity.

In the late 1970s and early 1980s, the Swedish labour market situation was tense. The development of real wages had been negative since the middle of the 1970s. Ideological clashes between the Swedish Trade Union Confederation, (LO) and the Swedish Employers' Confederation, (SAF) were common. In 1980, the largest industrial dispute since the general strike of 1909 took place, and around 900,000 workers were affected by a huge lock-out and strikes.

From the early 1980s and onwards, the tendency in collective bargaining has clearly been towards less centralisation.⁴⁷ Since the early 1980s, there have been, alternately, periods with wage agreements at the industry level and periods of central agreements. *Verkstadsföreningen*, the employer association for the engineering industry, was the driving force behind this pattern. In 1983-1985, 1988 and 1993-1996, the agreements were made at the industry level and in 1981-1982, 1986-1987 and 1989-1992, the agreements were taken on a central level.

⁴⁷ In Elvander (1988), an analysis of the wage negotiation rounds 1982-1986 is presented.

Agreements regarding collectively bargained insurances, however, have always been taken at the central level. It is important to note that the Government is in general not involved in wage negotiations, nor in the trend towards more decentralised wage negotiations.

Most of the 1980s were characterised by unions closely watching over other unions' wage negotiations, in order not to deteriorate their own relative position on wages. The unions for workers employed in the public sector appeared as powerful actors with high wage demands.

The negotiating system was multi-tiered, with negotiations first at the central level, then at industry levels and finally with the firms. In addition to increases resulting from negotiation, wage drift (and the corresponding compensation for groups employed in sectors where wage drift was negligible) accounted for a substantial part of the total increase in earnings.

During the 1980s, the Government repeatedly but unsuccessfully tried, through talks with the labour market parties, to limit wage increases to levels compatible with the target inflation rate. In February 1990, the Social Democratic minority Government proposed, as part of a large income political proposal, a wage stop and a ban on strikes and lockouts. Considering the tradition of non-intervention from the Government in industrial relations matters, this proposal was very drastic. The proposal was accepted by the LO leadership - historically the ties between LO and the Social Democratic party have been very strong - but many union members protested strongly.

The majority of the Swedish parliament, the *Riksdag*, rejected the proposal and as a consequence, the Government resigned. However, after a short time a new Social Democratic Government proposed a less severe income political proposal that the majority of the *Riksdag* accepted. This income political proposal involved wage negotiations concerning two-year wage contracts at the industry level for the whole labour market. The resulting wage agreements became known as the 'Rehnberg settlements', after the main mediator. The actions concerning wage formation taken by the Government during the 1980s and especially in 1990, represent a deviation from the non-interventionist tradition in Sweden.

During the rest of 1990 and onwards, when the recession struck the Swedish economy, the main labour market problem has been the drastic rise in unemployment and not excessive wage increases. The 'Rehnberg settlements', giving less than 3 per cent in negotiated yearly increases, ended early in 1993.

Thereafter new two-year wage contracts at the industry level, at even lower levels, were negotiated for almost the whole labour market.

The tendency in collective wage bargaining continues to be away from central negotiations, to negotiations at industry and local levels. If one union does not participate in the central negotiation, there is a high probability that other unions will also not participate. The agreements for 1996 have been taken at the industry level and in most cases, cover a three-year period.

2.2.4 Industrial conflicts

In November 1938, LO and SAF signed the Basic Agreement (*Saltsjöbadsavtalet*), an agreement that stated a system of rules concerning the settling of industrial disputes by the labour market parties themselves. Sweden had, up to the early 1930s, been a country characterised by a high level of industrial conflicts. In the 1930s, the industrial climate improved and the number of conflicts diminished. In March 1936, LO and SAF decided to start negotiations to reach an agreement regarding the organisation of industrial production, work environment and wage formation. The Basic Agreement was the result of these negotiations.⁴⁸ Corresponding agreements with regard to sectors of the labour market not covered by the agreement between the LO and the SAF, were subsequently created. The improved climate between the social partners manifested by the Basic Agreement, led to a large decline in the number of labour market conflicts. One exception was a large conflict in 1945 in the metal-working industry.

The main elements of these agreements were the non-involvement of the Government and the absence of legislation in the area of industrial relations. These fundamentals are still valid. However, in the 1970s several laws were introduced which regulate employment security, for example. Despite such developments, the extent of Swedish labour legislation is limited by international standards and not all legislation that has been enacted is mandatory, i.e. the involved parties can, through collective agreements, decide not to follow the regulations.⁴⁹

The law regulating industrial disputes is the Act on Litigation in Labour Disputes (*Lagen om rättegången i arbetstvister*, SFS⁵⁰ 1974:371, with later amendments).

⁴⁸ See Johansson (1988).

⁴⁹ An overview of labour market regulation and industrial relations in Sweden is given in Nilsson (1993). English translations of most of the laws referred to in Section 2 are found in Flodgren (1992).

⁵⁰ 'SFS' is an abbreviation of *Svensk författningssamling*, in English 'Swedish Code of Statutes'.

Swedish labour legislation relies on a fundamental distinction between disputes arising out of conflicting interests and those stemming from legal disputes. The former type of dispute concerns matters not included in legally binding law regulations or legally binding contracts, and where the aim is to arrive at a collective agreement. The State does not intervene in disputes arising out of conflicting interests, where no statutory arbitration exists.

Instead, what the State does when the industrial peace is threatened, is to provide a system of voluntary mediation, in the form of a mediation committee, aimed at enabling the parties in conflict to reach a voluntary settlement. The mediation committee consists of a central conciliation board and conciliation officers assigned to different parts of the country, who mediate in local disputes.

In the case of nation-wide disputes arising out of conflicting interests, the Government can appoint one or more special mediators to form a Government Mediation Commission. The mediators have no legal authority, and they therefore, cannot enforce a postponement of strikes or lockouts. The only actions forced upon the labour market parties in conflict are to serve notice of timing and extent of a strike or a lockout, both to the other party and to the Government Mediation Commission at least seven days in advance, and to appear for negotiations with the members of the Commission.

There is no legislation prohibiting conflicts that will affect and endanger the life of the community, not even in the public sector.⁵¹ The Swedish parliament, the *Riksdag*, decided in 1965 that the employers and employees in the public sector had, in principle, the same right to negotiate and to strike or to lockout, as have parties in the private sector.

Instead of legislation, the labour market parties have centrally signed agreements on how to decide whether a conflict is anti-community or not. These decisions are made in boards set up by the parties themselves. The parties are obliged to follow the decisions of the boards. However, since the boards are composed of just as many representatives from each party, and there is no impartial chairman with a casting vote, it is seldom possible to get a majority of votes to inhibit or limit a conflict that affects important parts of the community. In the four cases when a majority vote occurred, the parties involved were obliged to the vote.

⁵¹ The only time when the State accomplished an intervention by force on the Swedish labour market was in 1971, when the Swedish Confederation of Professional Associations (SACO) threatened to strike. Then the *Riksdag* prolonged the current wage agreements, thus stopping the strike, and SACO had to accept the same wage agreements as the public employer had negotiated with two other public sector unions.

The system of only voluntary arbitration in disputes arising out of conflicting interests is a consequence of the Swedish tradition that the labour market parties themselves are fully responsible for industrial peace.

The other kind of dispute, legal disputes, concerns the interpretation and application of laws and agreements. As a first step, the parties try to solve these disputes through negotiations. The important difference with respect to disputes arising out of conflicting interests is that the parties negotiate within the context of an embargo on strikes and lockouts. If the parties do not reach an agreement through negotiations, the dispute is settled in *Arbetsdomstolen* (AD), the Labour Court.⁵² A large majority of legal disputes are settled in negotiations between the parties.

The post-war period has been characterised by a low, but slightly increasing rate of labour market conflict. In the period 1988-1992, Sweden still had a lower number of working days lost per 1000 employees than the European Economic Area average - 100 in Sweden compared to 153⁵³. The difference has narrowed compared to earlier decades of the post-war period. Several countries, Austria, Belgium, Denmark, Germany and the Netherlands, had considerably lower number of working days lost than Sweden in that period.

The recession of the economy in the 1990s led a large decline in the number of conflicts, the number of people involved and the number of lost work days (the number of conflict days and number of people in conflicts in wild-cat strikes are not included since such information is more unreliable). These trends are shown in Table 11 which covers the period from 1988 to 1994. The wage negotiations in spring 1996 have been accompanied by some fairly large labour market conflicts.

Table 11. Labour Market Conflicts in Sweden, 1988-1994

	1988	1989	1990	1991	1992	1993	1994
No. of conflicts	144	139	126	23	20	33	13
No. of strikes	143	138	124	20	19	25	11
Conflict days, 000s	782.5	385.1	756.2	21.3	26.5	18.7	54.5
People in conflict, 000s	82.4	18.2	61.2	4.9	16.7	28.7	29.4

Source: Statistical Yearbook of Sweden (1996).

⁵² See section 2.1.

⁵³ see EUROSTAT (1994).

2.3 Evaluation of Wage Bargaining Systems and Macro-Economic Performance

A number of reports have studied how differences in the degree of centralisation in different countries' wage bargaining systems influences macroeconomic development, especially the development of unemployment, employment and inflation, in the respective country.⁵⁴

In Tarantelli (1984) and (1986), Okun's misery index, i.e. the sum of the inflation rate and the unemployment rate, is related to a measure of the degree of 'neocorporatism'⁵⁵ in the labour market. Tarantelli's measure is constructed as an index measuring three components: centralisation, consensus and arbitration rules. The result for 16 OECD-countries for the period after the second oil price hike in the end of the 1970s is that the higher the degree of 'neocorporatism', the lower the values (i.e. the better the values) of Okun's misery index. Pohjola (1992) has extended the analysis by studying the effects of 'corporatism', according to the Tarantelli index on employment and real wage rigidity in the period 1980-85. The employment/population ratio is higher and wage rigidity lower, the higher the degree of corporatism.

In Calmfors and Driffill (1988), 17 OECD-countries are ranked according to the degree of centralisation in the wage bargaining process. Austria and the Nordic Countries are ranked as the most centralised, while the U.S. and Canada are ranked as the countries having the least degree of centralisation. The correlations between the degree of centralisation and some different macroeconomic performance measures (unemployment rate, Okun's misery index plus an alternative index consisting of the unemployment rate plus the current account as a share of GDP) are estimated. The results indicate that there is a hump-shaped correlation between the degree of centralisation and changes in the macroeconomic variables. Thus, according to the results in this report, the negotiations system at an industry level yields the least beneficial result in respect of macroeconomic performance. On the other hand, a high degree of either centralisation or decentralisation may create incentives for low real wage increases and thus facilitate the attainment of high employment.

A comparison of the ranking of countries according to Tarantelli's and Calmfors' and Driffill's measures shows that it is mainly the same. The large differences in results

⁵⁴ Overviews of this found in, e.g. Calmfors (1993b), (1993c); Pohjola (1992) and Rowthorn (1992).

⁵⁵ See Tarantelli (1984), section V, for a discussion of the term. One definition of 'neo-corporatism' which Tarantelli presents as especially relevant for his analysis is 'Corporatism has been seen as the co-optation of interest groups into governmental decision making and the formalization of their role, because they have become too important to ignore' (Tarantelli (1984), p. 51).

are mainly explained by the fact that Japan has a high degree of corporatism according to Tarantelli, but a low degree of centralism according to Calmfors and Driffill. Furthermore, Switzerland is included in the Calmfors and Driffill study, but not in the Tarantelli study.⁵⁶

In Zetterberg (1993) and (1995) the degree of centralisation in 19 OECD-countries is related to the development of certain macroeconomic performance variables (inflation, unemployment plus youth unemployment and long-term unemployment as shares of aggregate unemployment). Zetterberg divides the countries into three groups, depending on whether their wage negotiation systems are centralised, intermediate or decentralised. Arithmetic averages of the macroeconomic performance measures are compared within the groups.

The study indicates that the development of the inflation rate seems to be independent of the degree of centralisation in the wage bargaining process. The development of unemployment during the previous 30 years, however, seems to depend on the degree of centralisation. In countries with a centralised system, the unemployment rate is lower than that of countries with decentralised systems. The share of youth unemployment is about the same in the three groups, while the share of long-term unemployment is markedly lower in the group of countries with centralised systems.

To conclude, the trend in Sweden since the early 1980s has been in the direction of a less centralised system. Wage negotiations are taking place at the industry and at the firm level. On the other hand, the central level is still important in respect of collectively bargained insurances. Several studies support the hypothesis that centralised wage bargaining leads to lower wage increases than bargaining at the industry or the firm level. This means that Sweden has probably moved to a more inflation prone bargaining system in the last decade.

⁵⁶ See Pohjola (1992) for a full comparison of the two measures.

3 LABOUR MARKET LEGISLATION

3.1 Employment Protection Schemes⁵⁷

Employment contracts and collective agreements ensure an individual's employment rights. The content of employment contracts are determined, to a large extent, by collective agreements. The vast majority of workplaces in Sweden are covered by collective agreements. Unions have the right to take offensive actions, such as boycotts, against family businesses and one-man firms that have not signed any collective agreements, if the aim of the offensive action is to secure a signing of such agreements.

Legal disputes which cannot be solved through negotiation are settled in *Arbetsdomstolen* (AD), the Labour Court.⁵⁸ Non-union members and union members whose case is not supported by the union may take their case to the district court and, if dissatisfied with its ruling, then to the Labour Court.

3.1.1 Lay-Offs, Dismissals and Quits

Regulations concerning lay-offs, dismissals and quits for individual employees, are found in the Act on Security of Employment (*Lagen om anställningsskydd*, SFS 1982:80, with later amendments),⁵⁹ Notices to lay-off can be based either on scarcity of work or on personal grounds, while dismissals can only be based on personal grounds. A notice to lay-off means that the employment will cease after a specified period, the period of notice, while a dismissal means that employment will cease immediately. The concept of 'quits' here refers to the termination of employment on the worker's own initiative.

Notices to lay-off due to scarcity of work must follow certain negotiation and seniority rules.⁶⁰ The employer has a *primary obligation* to negotiate (see 3.1.4), with the unions with which the employer has made collective agreements before giving such notices. The employer has to divide the staff with similar tasks, or staff of specific operating units, into non-overlapping groups called *turordningskretsar*. The individual employees in these groups are ordered according to their length of employment

⁵⁷ A detailed description of most of the following employment protection legislation is found in Iseskog (1995) and in Lunning (1996).

⁵⁸ See section 2.1.

⁵⁹ English translations of most of the laws accounted for in Section 3 are found in Flodgren (1992). 'SFS' is an abbreviation of *Svensk författningssamling*, in English 'Swedish Codes of Statutes'.

⁶⁰ See section 3.5 *Evaluations of Employment Effects of Employment Protection Schemes* as regards the short-lived alterations introduced in 1994 and the changes back ('*återställarna*') in 1995.

with the company. Notices to lay-off are given, within these groups, according to the principle of reversed seniority. This means that the employee with the shortest period of employment in the company, is the first to be given, then the employee with the second shortest period of employment, and so on until the scarcity of work is eliminated. This process takes place within each group, or *turordningskrets*. However, the law concerning the principle of reversed seniority is optional, which means that unions can agree to exceptions to the principle. This happens in cases, for example, where an employer guarantees a pension up to the ordinary retirement age of 65 for older workers who may be laid off.

Before giving notices to lay-off to the relevant employees, the employer must investigate whether it is possible to employ these people elsewhere in the company. Employees given notices to lay-off have certain priorities over other job applicants to new openings, both during the period of notice and twelve months thereafter.

The period of notice in the case of lay-offs depends on the worker's age and length of employment. The shortest period of notice is one month - for workers of all ages who have been employed for less than six consecutive months, or less than 12 months in the previous 24-months. For other workers, the following periods of notice apply: age 25-29 years, two months; age 30-34 years, three months; age 35-39 years, four months; age 40-44 years, five months and for people older than 45 years the period of notice is six months. The period of notice in the case of quits is one month. The rules may be changed if the employer organisation and the union make an agreement.

Notices to lay-off on personal grounds, or dismissals, are allowed when an employee has seriously neglected his or her undertakings in the employment agreement. The employer cannot give notice to lay-off or dismiss an employee for actions that have been known to the employer for more than two months. The employer has the burden of proof in these cases and the notice to lay-off or dismiss must be based on grounds of fact.

3.1.2 Parental Leave Arrangements

For many years, Sweden has had one of the most extensive family benefit systems in the world.⁶¹ Since 1955, employed Swedish women have had the right to three-month maternity leave at childbirth, extended to six months in 1962, with some earnings related benefits. In 1974, the six months of parental leave became

⁶¹An overview of the Swedish parental leave arrangements is given in Sundström (1995).

available to fathers and the pay level was raised to 90 per cent of gross earnings. Since then the benefit period has been gradually increased up to 450 days (from 1989), with the pay level for the last 90 days at a flat rate of 60 SEK per day.⁶²

The laws regulating parental leave and benefits are the Parental Leave Act (*Föräldradedighetslagen*, SFS 1995:584) and the National Insurance Act (*Lagen om allmän försäkring*, SFS 1962:381, with later amendments). The National Insurance Act and crucial parts of the Parental Leave Act are mandatory.

An amendment (SFS 1994:605) to the National Insurance Act, came into force on 1 January 1995, with the aim of reducing government expenditure while at the same time increasing fathers' involvement in child care. The amendment states that ten months of parental leave are compensated by 80 per cent of the gross earnings of the parent staying at home (up to a ceiling of 7.5 'base amounts').⁶³ On 1 January 1996, the compensation level was reduced to 75 per cent. Two additional months, one for each parent, are compensated at 85 per cent⁶⁴ of the gross earnings (with the above income ceiling as a restriction) and cannot be transferred to the other parent. Single parents receive both of these months. Apart from the above limitation, the parents can divide the parental leave between them as they prefer. Fathers also have ten days paid leave at the time of the child's birth.

Parents who adopt children have similar rights to parental leave. Multiple births give a right to 180 days additional paid leave (of which 90 days is at the flat rate) for each additional child.

The Swedish system of parental benefits encourages a closer spacing of children, since the benefit level is as least as high as for the previous child if the next child is born within 30 months of the birth of the first child.

By far the greatest share of parental leave benefits for the care of babies is taken up by mothers. In 1995, fathers used 9.7 per cent of all days, which is lower than the previous year (11.4 per cent in 1994), but higher than, e.g., ten years ago (6.2 per cent in 1986).⁶⁵

⁶² The compensation for the last 90 days was abandoned from 1 July 1994, but reinstated from 1 January 1995.

⁶³ The 'base amount' is a concept derived from social insurance. The concept was invented in order to permit the calculation of benefits and incomes to be smoothly adjusted to the changes in price levels. In 1996, the 'base amount' is 36,200 SEK.

⁶⁴ Before 1 January 1996, this compensation rate was 90 per cent. The Government has proposed (prop. 1995/96:209) that this compensation rate should be lowered to 75 per cent from 1 January 1997.

⁶⁵ See Riksförsäkringsverket (1995) and (1996).

In order to be entitled to job-protected parental leave, the parent must have been employed for at least 6 consecutive months or for at least 12 months in the two years prior to the birth. The Swedish system favours parents with a recent earnings history, since a large part of parental benefit is wage related. Parents with no earnings prior to childbirth receive only the flat rate.⁶⁶ Thus, the Swedish system provides parents with a strong incentive to be employed prior to childbirth and even to postpone childbearing until earnings are sufficiently high.

Benefits are taxable; they entitle holders to pensions and employed holders to paid vacation. All benefit provisions are financed through general taxes with no direct costs to the employer.

In addition to parental leave with financial compensation, parents (who fulfil the above work requirement) are entitled to job-protected, unpaid leave until the child is 18 months old. Parents whose normal working week exceeds 30 hours have the right to reduce their working hours to 30 hours per week, with a corresponding cut in pay, until the child is eight years old or has finished the first year of school.

If the child or the child's normal carer is sick, a parent who stays at home is compensated. In 1995, the fathers' share of such days was 32.1 per cent. There are also two compensated days per year to cover parents' involvement in day care and school activities. In 1995, the fathers' share of these days was 33.9 per cent.

3.1.3 Approaches to Part-Time and Temporary Employment

There is no labour legislation in Sweden restricting the share of the workload undertaken by part-time employees. The regulation of working time for part-time employees is found in the Working Hours Act (*Arbetstidslagen*, SFS 1982:673) and is optional.

The laws regulating temporary employment are the Act on Security of Employment (*Lagen om anställningsskydd*, SFS 1982:80, with later amendments) and the Act on Various Employment-Promoting Measures (*Lagen om vissa anställningsfrämjande åtgärder*, SFS 1974:13, with later amendments). The main principle is that all employment contracts, full-time as well as part-time, should be permanent. The law regulating temporary employment in the Act on Security of Employment is optional. However, rules in collective agreements which replace the optional parts of the Act

⁶⁶ When a parent, who is unemployed and registered at an unemployment office, is going on parental leave, unemployment benefit is not paid for that period. The parental benefit, related to the former wage through the concept of 'income qualifying for sickness allowance' (*sjukpenninggrundande inkomst*, SGI), is paid. Thus, a recent earnings history is needed in order to receive more than the flat rate.

on Security of Employment must, in order to be valid, provide the employee with better conditions than the ones set out in the act.

In exceptional cases, such as during temporary heavy workloads, the employer can hire a person for a total of six months during a 24-month period. Also, an employer who wants to hire a person for regular employment, can at first hire this person for a trial period of six months.⁶⁷ A person can be temporarily hired for more than six months if he or she is replacing an employee who is absent for reasons such as parental leave or protracted illness.

3.1.4 Laws Regarding Employee Involvement

The first agreements on codetermination at work are found in the so-called December Compromise (*decemberkompromissen*) of 1906, between the Swedish Trade Union Confederation, (LO) and the Swedish Employers' Confederation, (SAF). In short, according to this compromise, the employers accepted the unions as representatives for the employees and the unions accepted the rights of employers to 'lead and distribute work tasks' and to 'freely employ and dismiss workers'. These employers' rights were established as §32 in the regulations of the SAF.

The impact of §32 on employee involvement and employment security was slowly eroded. In 1936, an employer was forbidden to give notice to lay-off or dismiss a worker on grounds of union membership. The first law on employment security in 1974 completely removed the rights of employers to freely give notice to lay-off or dismiss a worker.

In 1977, the most important law regarding employee involvement, the extensive Act on Codetermination at Work (*Lagen om medbestämmande i arbetslivet*, SFS 1976:580, with later amendments) often abbreviated as MBL, came into force. This law, which is optional, involves the relationship between the employer and the union, or unions, with which the employer has made collective agreements. The most important parts of the law are regulations concerning negotiations on employee involvement and regulations concerning a union's right to information about the affairs of the company (or public sector place of work).

The employer has a so-called *primary obligation* to negotiate. This means that the employer, on his or her own initiative, is obliged to negotiate with the unions before

⁶⁷ See section 3.5 on the short-lived alterations introduced in 1994 and the changes back ('återställarna') in 1995.

making decisions important to the company. These matters are called primary negotiation issues.

The so-called *secondary obligation* to negotiate means that employers are obliged to take part in negotiations demanded by the unions in matters that do not concern primary negotiation issues.

The employer is obliged to actively and continuously inform the unions about the economic development of the company and the guiding principles of personnel policy. The employer is also obliged to give access to certain documents, such as accounts, which are requested by the unions. In the public sector, the principle of public access to official records is to be followed.

The Act on the Position of a Trade-Union Representative at the Work Place (*Lagen om facklig förtroendemanns ställning på arbetsplatsen*, SFS 1974:358, with later amendments) guarantees the right for union representatives to engage in union activities during work time. This law entitles union representatives, with which the employer has made collective agreements, to take time off from regular work in order to work on union business. If union business relates to the representative's own place of work, the representative has the right to keep his or her regular wage during the time off.

3.1.5 Equal Opportunities

Equal opportunities for men and women was one of the most frequently discussed labour market issues in the 1970s. In 1972, the Government appointed the Delegation for Equal Opportunities to lead the work on improving equal opportunities for men and women. In 1976, the delegation was given the mission to present a proposal for an Equal Opportunities Act. In 1980, the Act on Equality between Women and Men at Work came into force. After ten years, this law and its impact on wage differentials, career possibilities for both sexes, etc. were evaluated. The conclusion reached in this evaluation was that the law had been too weak to serve its purpose.

As a consequence, the law was discarded in its entirety. In 1992 a new law came into force, the Act Concerning Equality between Men and Women (*Jämställdhetslagen*, SFS 1991:433, with later amendments). This consists of two parts: active measures to create gender equality in the workplace and a ban on sex

discrimination.⁶⁸ The Act Concerning Equality between Men and Women is in crucial parts a mandatory law.

An example of an active measure is that each year employers with ten or more employees have to construct an annual plan for equality promotion at the workplace. This plan forms the basis for the employer's future equal opportunities measures. These employers are also obliged to carry out an annual survey of the wage differences in the workplace. The survey and the measures that the employer plans to take as a result of the survey have to be included in the annual plan of equality promotion.

A special institution, *Jämställdhetsombudsmannen* (JämO), the Equal Opportunities Ombudsman, works on both parts of the Act. Where employers refuse to comply with the sections of the Act concerning active measures, e.g. a refusal to draw up or to revise a plan for equality promotion, the JämO can apply to *Jämställdhetskommisionen*, the Equal Opportunities Commission. This Commission has the right to issue fines if an employer does not comply by a certain date.

Cases of sex discrimination are legal disputes. As such they are settled by the Labour Court. An employer found guilty of sex discrimination can be liable to damages. An employee who claims to have been a victim of discrimination on grounds of gender can, first and foremost, obtain help from the union concerned. The union can, if it wishes, take the case to the Labour Court. People who are not union members, or those who think they do not receive sufficient help from their union, can apply to the JämO.

The number of complaints to the JämO has risen and their focus has changed over the last year. There were 116 cases concerning wage discrimination, job opportunities and sexual harassment in 1994, whilst the number of cases in 1995 was 167, of which 13 cases involved more than one person. A few of these cases involve many people (e.g. one case involves more than 300 people employed as nurses). Wage discrimination has been the most important issue in 1995.

In these cases, the first obligation of the JämO is to seek to persuade employers to comply with the Act. If the employer refuses, or if it proves to be impossible to come to an agreement, the JämO can take the case to the Labour Court.

⁶⁸ The ban on sex discrimination does not apply, however, if the employer can show that the decision was not founded on the person's gender but was a part of a conscious effort to promote equality at work. Exceptions are also made for the furtherance of ideologies or other special interests.

In 1986, *Diskrimineringsombudsmannen* (DO), the Ombudsman against Ethnic Discrimination, was established, with a remit to counteract discrimination of immigrants, both at work and in other aspects of life. This office was established under the 1986 Act against Ethnic Discrimination (*Lagen mot etnisk diskriminering*, SFS 1986:442), since replaced by the 1994 act of the same name (*Lagen mot etnisk diskriminering*, SFS 1994:134). Ethnic discrimination is defined in the Act as occurring when a person or group of people is treated unfairly, compared to others, because of race, skin colour, national or ethnic origin or religious faith.

If an employer unfairly singles out a work-seeker or employee for different treatment because of one or more of the factors mentioned above, the DO has, since 1994, been able to represent that person in the Labour Court. This is conditional upon a number of factors: one is that the individual is not also being represented by the concerned union, another is that the case is important for reasons of principle or that there are particular reasons for the DO to exercise this role.

Furthermore, all employers are obliged, at the request of the DO, to provide information, necessary for the DO's work, about the employer's stance toward work-seekers and employees.

Most people who apply to the DO complain that they have been discriminated against at work, or when applying for work, in the housing market, in the credit market in the broad sense, in admission to restaurants or in contacts with the police and customs. The number of registered cases with the DO amounts to around 800-900 per year.

3.1.6 Disability Regulations

Disability policy has been part of labour market policy since the mid-1940s. Section 4 presents the labour market programmes for disabled workers. In this section, a short overview of the development of the regulations is given. However, the regulations currently in force are not very extensive.

The Act on Various Employment-Promoting Measures (*Lagen om vissa anställningsbefrämjande åtgärder*, SFS 1974:13, with later amendments) contains, *inter alia*, regulations concerning measures for the hiring of people who have a reduced working capacity. The county labour market boards are allowed to demand information from employers on the composition of their work force and projected changes to force negotiations concerning both measures to protect presently employed disabled people and future hirings, and formulate rules

regarding measures for disabled workers if agreement is not reached. If the employer refuses to come to negotiations or does not follow stipulated measures, the case is referred to the National Labour Market Board.

The National Labour Market Board can call the employer to negotiations or issue directives. If their directives are not heeded, the Board can decide that the employer can recruit only through the employment service. The law came into force on 1 July, 1974, but has been put to very little use, with the exception of a few campaigns in the early 1980s.

One reason for the lesser importance of these regulations is the trend towards giving employers, and the social insurance societies,⁶⁹ more responsibility for rehabilitating disabled workers. Mainly as a response to that development, the National Labour Market Board in the late 1980s started, on an experimental basis, a new activity selling rehabilitation services. The programme was called Working Life Services (*Arbetslivstjänster*). It became permanent from the fiscal year 1990/91 and the social insurance societies were then permitted to buy rehabilitation services.

With a new amendment (SFS 1991:1040, valid from 1 January, 1992) to the National Insurance Act (*Lagen om allmän försäkring*, SFS 1962:381, with later amendments), employers were given greater responsibility for rehabilitating disabled employees. A special rehabilitation benefit, higher than the sickness cash benefit, was introduced at the same time giving 100 per cent income compensation for those taking part in rehabilitation. The compensation was decreased to 95 per cent from July 1993, to 80 per cent in 1994, and abolished early in 1996. Currently, sickness cash benefits are paid during the period of rehabilitation.

Handikappombudsmannen, the Disability Ombudsman, was set up in 1994 to monitor issues relating to the rights and interests of people with functional disabilities. The Disability Ombudsman aims to remedy legislative deficiencies and, by presenting matters to the Government, to raise questions of statutory amendments, etc. The Disability Ombudsman aims to give special consideration to the position of disabled women in various sectors of society.

⁶⁹The social insurance societies are regional organisations, supervised by *Riksförsäkringsverket*, the National Social Insurance Board, which are administering most of the social transfer systems, e.g. sickness cash benefits, old age and disability pensions and annuities from the employment injury insurance.

3.1.7 Health and Safety

The law regulating health and safety at the place of work is the Work Environment Act (*Arbetsmiljölagen*, SFS 1977:1160, with later amendments). The fundamental regulation in the Work Environment Act is the employer's responsibility to take all actions necessary in order to protect employees from dangerous situations and health risks.

In practice, this means that the employer must follow all directions from the National Board for Occupational Safety and Health, the authority with the final responsibility for the Work Environment Act and its application. Most of these directions are mandatory. It is the duty of the employer to supervise the work environment. The employer must also respect interventions from the Industrial Safety Inspectorate, the local supervision authority.

According to the Work Environment Act, it is the duty of employees to follow security regulations and to use available safety devices. Not following the regulations is normally seen as major neglect and can thus lead to a notice to lay-off.

3.2 Regulation of Working Time

The current law regulating working time is the Working Hours Act (*Arbetstidslagen*, SFS 1982:673). The most important restriction in the Working Hours Act is the restriction of a normal working week to 40 hours. Overtime work is allowed up to 50 hours per month and 200 hours per year. The law is optional in its entirety but there are certain mandatory restrictions from the National Board of Occupational Safety and Health (*Arbetskyddsstyrelsen*) that apply to the working hours of young people. The average weekly hours actually worked in Sweden was 36.8 hours in 1995 (40.3 hours for men and 32.8 hours for women).⁷⁰

The current law regulating employees' holiday entitlement is the Annual Leave Act (*Semesterlagen*, SFS 1977:480, with later amendments). The law distinguishes between the right to take time off for vacation and the right to have holiday pay. Substantial parts of this law are optional, but a minimum time off for vacation of 25 days per year for full-time employees is mandatory. Employees are entitled to holiday pay amounting to 12 per cent of their total earnings. Those who are employed for a period of less than three months, and during that time work less than

⁷⁰ According to the Labour Force Survey, Statistics Sweden. Thus, these figures include the working hours of both full-time and part-time employees as well as overtime.

60 hours, do not have the right to a vacation but they are still entitled to holiday pay amounting to 12 per cent of their total earnings.⁷¹

Many groups of employees have agreements implying longer vacations than 25 days. This is the case, e.g. concerning the lion's share of the people employed by the government. Also, more senior employees in both the public and the private sector have vacations longer than 25 days in compensation for not being reimbursed for overtime worked.

3.3 Minimum Wage Regulation

In accordance with the tradition of non-involvement of the State and the absence of legislation in the area of industrial relations, there are no laws regulating minimum pay in Sweden. The rules concerning minimum pay are negotiated by the labour market parties themselves. Minimum pay rules differ depending on the sector of the labour market and on the work experience and age of the employee.

In the manufacturing sector there are around 100 different collective agreements with minimum clauses for blue-collar workers, and one agreement that covers all of the white-collar workers in this sector (between the Swedish Employers' Confederation, SAF, and the Negotiation Center for Salaried Employees in the Private Business Sector, PTK).

As an example, the agreement that covers most blue-collar workers, that for the engineering industry, is presented here. For those aged 16, the minimum rate was 42.52 SEK per hour and for those aged 17 the hourly rate was 49.63 SEK in 1994.⁷² For workers 18 years and older, there were four different minimum wages according to the nature of the job (work evaluation is used to classify jobs into four groups). The rates were 56.06, 59.51, 63.17 and 67.06 SEK per hour. To this should be added 0.94 SEK for those with 2 year's tenure and 1.89 SEK for those with 4 year's tenure.

This example shows that there is not only one minimum wage, but a set of minimum wages in one agreement and that the minimum wage varies with age, the nature of the job and tenure. For young people, further wage equalisation than that set by minimum wages appears to result from local agreements.⁷³

⁷¹ However, agreements (collective or individual) can be made according to which the employee has no right to vacation even if the hours worked exceed 60 - but the period of employment must in these cases still not exceed three months.

⁷² See *Kommentar till verkstadsavtalet* 1994.

⁷³ See Schober-Brinkmann and Wadensjö (1991).

In the early 1970s, the minimum wages for young people increased greatly relative to average adult wages in many sectors of the economy. For example, in the engineering industry, the relative minimum wage for 18 year old blue collar workers increased from just over 50 per cent of the blue collar adult average wage in the corresponding sector to more than 70 per cent in just a couple of years. It fluctuated around 65 - 75 per cent of the blue collar adult average wage in the corresponding sector until the early 1990s.⁷⁴

So far, only a few Swedish studies have been carried out on the employment effects of negotiated minimum wages. In Edin and Holmlund (1994), employment effects of minimum wages for blue collar young people (18 year olds) in the engineering sector were studied. The results indicate that the increased minimum wages for young people seem to have had a negative impact on the demand for young workers in the engineering industry.

Östros (1994) has studied the effects on wages of minimum wage agreements in the manufacturing industry. The agreements covered in his study are: the one for white-collar workers for the entire industry and those for blue-collar workers in the engineering, sawmill, and wood and paper industries. The main results are that actual wages tended to be concentrated at the minimum wage level in 1975 and 1980, but not in 1995 and that increased minimum wages tended to lead to increased wages for young people.

3.4 Work Environment Regulation⁷⁵

The first Swedish law on worker's protection was the law prohibiting child labour in manufacturing and the crafts, from 1881. The Worker's Protection Act of 1889 covered the same industries but extended protection to adult workers. A special labour inspectorate, *Yrkesinspektionen*, the Industrial Safety Inspectorate, was established by that act. In 1912 the law was extended to most other sectors of the economy, the major exception being the public sector. According to this law the employer was obliged to take action to improve working conditions so as to avoid occupational injuries and illnesses.

In 1949, a new Health and Safety at Work Act was enacted and a new central authority, *Arbetskyddsstyrelsen*, the National Board for Occupational Safety and

⁷⁴ As calculated in Edin and Holmlund (1994).

⁷⁵ An overview of the development of the legislation in this area and the present regulation is given in Iseskog (1994).

Health, was established at the same time. In 1978, it was replaced by the Work Environment Act. This law covers all sectors of the economy except the merchant fleet, which is regulated in another way, and work in private households. This legislation stresses, more than did the earlier Acts, the importance of prevention of occupational injuries.

In the 1990s further changes have been made emphasising the employer's responsibility for rehabilitation of long-term ill and disabled workers. Earlier special, stricter rules regarding permissible work conditions have been enacted for women and young people. Currently, such special rules exist only for young workers below 18, regulating both working hours and work tasks.

3.5 Evaluation of the Employment Effects of Employment Protections Schemes

In the discussions on European unemployment, the importance of 'hiring and firing costs' are often emphasised. Such costs can be seen as adjustment costs, since they are influenced by the rate at which the enterprise changes the size of its staff. One hypothesis is that regulations, which make it more difficult for firms to lay people off, may make them less inclined to hire new personnel and more inclined to carefully scrutinise potential employees, since taking on a new employee is a risky decision which is costly to reverse. Related hypotheses are that the higher the 'hiring and firing costs' arising from stricter employment protection schemes, the smaller are the business-cycle dependent variations in employment and the longer are vacancy times.

Another hypothesis is that reversed seniority regulations pertaining to layoffs (rules of the 'last in - first out' type) may impede or decrease the negative signalling effects of unemployment, i.e. such rules make it less plausible that a company will perceive individual unemployment as a sign of low productivity.

OECD (1994b) provides, for the period from 1985 to 1993, a ranking of countries in terms of the ease with which employees can be given notice to quit, i.e. the degree of 'employment flexibility' (see Table 13). The ranking is based on different criteria, e.g. the length of the period of notice, the size of the redundancy payments and how liberal the rules are concerning temporary employment. The degree of employment flexibility is highest in the United States (no 1) and lowest in Italy (no 21). Sweden is ranked as no 13. The other Nordic countries are all placed above Sweden in this ranking.

Table 13. Ranking of employment flexibility in different OECD countries, from 1985 - 1993

1. United States.	11. Norway
2. New Zealand	12. Ireland
3. Canada	13. Sweden
4. Australia	14. France
5. Denmark	15. Germany
6. Switzerland	16. Austria
7. Great Britain	17. Belgium
8. Japan	18. Greece
9. Netherlands	19. Portugal
10. Finland	20. Spain
	21. Italy

Source: OECD (1994b).

There have been only a few studies of the employment effects of employment protection schemes based on Swedish data.⁷⁶ Holmlund (1978) studied the effects of the introduction in 1974 of the first Act on Security of Employment on the behaviour of firms in respect of new hirings and youth unemployment. Significant correlations as regards new hirings were found. After the introduction of the Act, firms took longer to decide who to hire and vacancy times were estimated to be longer, by around 5-10 per cent. These results suggest that increased firing costs mean that employers are less likely to hire new personnel. No significant effects on youth unemployment could be discerned. Other studies have indicated that the introduction of the Act increased vacancy times (Siven, (1977); Axelsson and Löfgren (1978).

Other analyses of the effects of the Act on employment are presented in Holmlund (1980) and (1981). Holmlund (1981) found that the Act has no impact on the chances of unemployed people finding work.

On the other hand, a decrease in the number of lay-offs was discerned during the second half of the 1970s, as well as a lower inflow to unemployment. Some of these changes could be attributed to the introduction of the Act.

⁷⁶ This and the following three paragraphs are mainly based on Edin and Holmlund (1993).

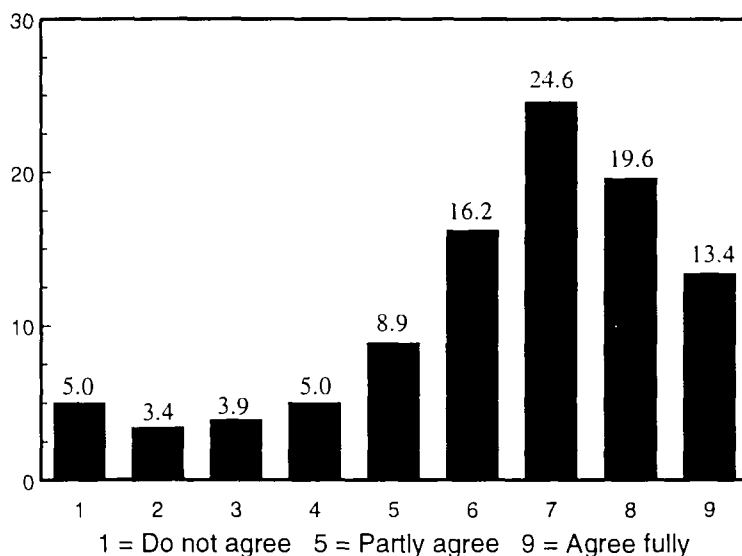
The use of fixed term contracts was facilitated in 1982 when the Act on Security of Employment was amended. Holmlund (1986) examined whether this had any effect on new hirings within the manufacturing sector. The results indicated that the number of new hirings increased and vacancy times were shortened.

Agell and Lundborg (1993) and (1995) present findings of a study based on a questionnaire sent out to personnel managers and senior wage negotiators in 182 enterprises that were members of *Industriförbundet*, the Federation of Swedish Industries.

The study indicated that the Act on Security of Employment involves increased recruitment costs. A substantial majority of the interviewed managers and wage negotiators agreed that the employment protection schemes made them more careful in screening job applicants (see Figure 6). The people interviewed were asked to indicate the applicability to their company of the following statement: 'The Act on Security of Employment makes the firm more prone to scrutinise job applicants' abilities than would otherwise have been the case'. The scale ranged from 1 to 9 where 1 is 'Do not agree', 5 is 'Agree somewhat' and 9 is 'Agree fully'.

Figure 6. Indicate the accuracy to your company of the following statement: The Act on Security of Employment makes the firm more prone to scrutinise job applicants' abilities than would otherwise have been the case

Per cent

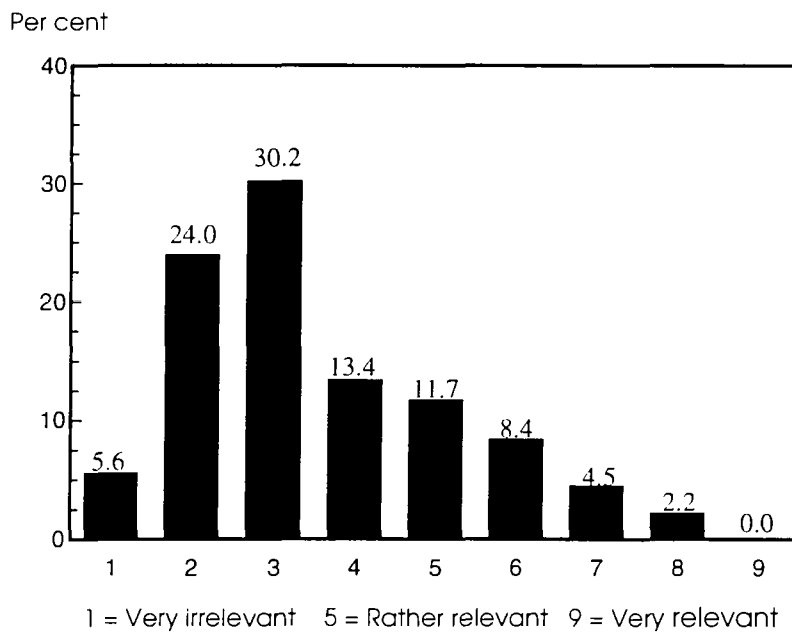


Source: Agell and Lundborg (1993).

According to the labour turnover version of the insider-outsider model, high turn-over costs mean that already employed workers can in the long-run demand higher wages, thus creating persistent unemployment.⁷⁷

The people interviewed were introduced to this version of the insider-outsider model by asking them to indicate the relevance to their company of the following statement: 'One theory to explain why wages may end up above the level that gives full employment is based on the idea that hirings and firings are costly to firms. These costs (associated with employment interviews, advertisements, retraining, redundancy payments, etc.) make firms prone to reduce labour turnover and keep existing workers. This situation may be used by employees to push up wages'. The scale ranged from 1 to 9 where 1 is 'Very irrelevant', 5 is 'Rather relevant' and 9 is 'Very relevant'. As can be seen in Figure 7, the majority of the people interviewed did not think this insider-outsider mechanism was particularly relevant to their firm.

Figure 7. One theory to explain why wages may end up above the level that gives full employment is based on the idea that hirings and firings are costly to firms. These costs (associated with employment interviews, advertisements, retraining, redundancy payments, etc.) make firms prone to reduce labour turnover and keep existing workers. This situation may be used by employees to push up wages. How relevant is this to your firm?



Source: Agell and Lundborg (1993).

⁷⁷ See Lindbeck and Snower (1988).

Storrie (1994) describes a project, 'The Economic Consequences of Employment Protection Regulation in Sweden', initiated by the Expert Group of Labour Market Policy Evaluations. The aim of this project is to empirically analyse, from various angles, the employment effects of employment protection schemes. There are no results available as yet, so what follows is a brief description of the background.

In late 1993, the former coalition Government decided to alter the employment legislation in certain respects, from 1 January 1994. Almost all of these changes were, however, annulled by the Social Democratic government that took office after the general election in September 1994. The former legislation was almost completely restored on 1 January 1995.

The main temporary amendments (operative throughout 1994) to the employment protection legislation were the following:

- The maximum period for trial employment was extended from 6 to 12 months.
- Employers could exclude two people from each *turordningskrets* (see section 3.1 for an explanation of the concept).
- The total time for which an employer could temporarily hire a person during, e.g. heavy workloads, was extended from 6 months to 12 months during a 24-month period.
- The rights of unions to take offensive action against one-man firms and family businesses that had not signed any collective agreement (with the aim of signing such a collective agreement) was abolished.

All these amendments were completely restored on 1 January 1995.

Some amendments were either not restored, or only partially restored, on 1 January 1995 were:

- The right of unions to veto the use of certain sub-contractors. This right had been abolished throughout 1994, but was partly reinstated.
- Before 1 January 1994, an employer could not give notice to lay-off or dismiss an employee for actions that have been known to the employer for more than one month. After 1 January 1994, the time period was extended to two months. This rule remains intact.

Storrie (1994) aimed to map the position, as at late 1993, concerning the regulations concerning fixed term contracts (due to heavy workloads) in the central agreements in the LO-SAF area, i.e. immediately before the implementation of the changes in the employment protection legislation. Since the legislation on fixed term contracts is

optional, it may well be that the central agreements had more liberal rules than the original law. If so, the employment effects of the amendments would be less in these areas of the labour market, compared to areas with stricter collective agreements.

Storrie (1994) found that, in the autumn of 1993, most of the LO-SAF central agreements had at least the 12-month period as an upper limit in the central agreements. The agreements concerned around 80 per cent of the workers in the areas studied. In around one third of these central agreements, the approval of the union was required in specific hiring cases. Thus, the amended legislation would have had most impact on the workplaces where the remaining 20 per cent of the workers are employed, although it will also have had an impact on workplaces where central agreements require union approval in specific hiring cases.

4 LABOUR MARKET POLICIES

4.1 Introduction

OECD's comparisons of public expenditure on labour market programmes show that in Sweden labour market expenditure corresponded to 5.4 per cent of GDP in the fiscal year 1994/95; 3.00 per cent on active and 2.54 per cent on passive measures.⁷⁸ In 1993/94, passive measures were almost as expensive as the active measures for the first time in decades, but by international standards Sweden is still the country with the strongest emphasis on active measures. The Swedish emphasis on active programmes is a long tradition.

The first Swedish labour market programme was the establishment of the state-supported municipal employment exchanges in 1902.⁷⁹ The next programme was public relief work (*nödhjälsarbete*) which was presented as a means of tackling unemployment during the First World War. These initiatives were greatly expanded in the depression of the early 1920s. Wages for public relief work were set low so that no one would be tempted to stay on if another job became available. This work was also used as a test of the willingness of the unemployed to work before cash support was given. The work principle was strongly emphasised.

During the 1930s, there was a partial policy change. With a Social Democratic government in power since 1932, a new form of public work was introduced in response to the influence of Keynes, the contemporary (and in some respects earlier) Stockholm School, and the trade unions. In this form of public work - temporary job creation schemes (*beredskapsarbeten*) - compensation was raised to the market wage. State support of the union unemployment insurance societies was granted from 1935. The number of employment exchanges was enlarged in order, among other things, to be able to check the willingness of people who received unemployment insurance benefits to accept work. The two forms of public works continued up to the reorganisation of labour market policy in 1940, when the old type of public works was disbanded.

One problem which confronted the trade union movement (LO) at the end of the 1940s was the tendency towards increasing inflation and, accompanying it, demands on the trade unions to hold down wage demands. LO economists, with Rudolf Meidner and Gösta Rehn as the leading figures, believed that it was

⁷⁸ See OECD (1996).

⁷⁹ An overview of the history of Swedish labour market policy is given in Wadensjö (1987). A detailed presentation of the development of various labour market programmes is given in Olli (1996).

unreasonable for the trade union movement to keep wages down. It would lead to conflicts within the organisation and undermine the equalisation of wages.

Meidner and Rehn suggested, therefore, a new policy with the following elements:

- 1) a restrictive aggregate demand policy;
- 2) a solidaristic wage policy (equal pay for equal work) with an expected decrease in wage differences, and;
- 3) active labour market measures.

In contrast with previous policy, the first two measures would be likely to push unemployment up. The third element was presented as a compensatory mechanism, moving unemployed people to vacancies.

This policy, the Rehn-Meidner model, won political support from the end of the 1950s. Labour market training and mobility grants in particular were typical of the new policy. The model had most impact from the end of the 1950s until the mid-1960s, during which period it became widely accepted and labour market policy quickly expanded.

The development in the 1970s differed in some respects from the traditional Swedish approach. Although the work principle was still dominant - both in terms of numbers and budgets - the cash principle gained ground by way of changes in the transfer system. With a shift in policy from 'employment security in the labour market' to 'job security in the enterprise', there was much less emphasis on market-strengthening measures.

Two things characterise labour market policy in the 1980s, namely, the emphasis on the role of the employment agencies and targeting particularly exposed groups in the labour market. A law on general job notices was adopted at the end of the 1970s, although companies were not obliged to fill vacancies with people who applied via employment agencies.

Temporary public jobs, primarily for women and young people, were established within the service sector. Labour market training involved less retraining and more general education and Swedish language training for immigrants. Labour market programmes for disabled people became more extensive and special measures for young people were added in the recession of the early 1980s.

Labour market policy in the present crisis differs from that of earlier recessions.⁸⁰ Firstly, the government waited much longer this time to increase the volume of labour market programmes. Secondly, labour market training was very much favoured compared to temporary job creation schemes at the start of the recession. In all previous downturns, temporary job creation had been the main labour market programme used to stabilise the business cycle. The policy changed, however, and temporary job creation schemes expanded. In 1993, a new form of temporary employment schemes was introduced, work experience scheme (*Arbetslivsutvecklingsprojekt, ALU*), which paid lower wages, at the same level as unemployment benefit compensation.

As in the early 1980s, special programmes for young people have been introduced. The programmes differ from the earlier ones in that employment is now subsidised mainly in the private sector, as opposed to the public sector and programmes now include not only those aged 19 or less, but also young people aged 20 to 24.

4.2 Passive Measures⁸¹

Since 1935 the Government has subsidised the unemployment benefit societies, which are closely related to the trade unions.⁸² The system, *the Ghent-system*, which is the same as that used in Denmark and Finland, has contributed to the high degree of unionisation in the three countries. The compensation rate was 90 per cent of previous income (up to an earnings ceiling) prior to July 1993, after which it was lowered to 80 per cent and then to 75 per cent from 1 January 1996. The maximum compensation per work day has been 564 SEK since 1993 and the average compensation rate was 461 SEK in 1995. However, it is still high from an international perspective. The Social Democratic government has declared that the compensation rate will be restored to 80 per cent in 1998, to be funded from within the unemployment insurance system. It is not yet indicated, however, precisely how this funding will be arranged.

Although most employees are members of unions, not all unemployed members of the unemployment insurance societies are eligible for benefits. To be eligible, a person must have been a member for 12 months and have worked (or taken part in

⁸⁰ See Johannesson and Wadensjö (1995).

⁸¹ For an overview of the long-term development of the unemployment compensation schemes, see Björklund and Holmlund (1991).

⁸² See Edebalk (1975) for the history of the unemployment insurance societies up to 1935, and Edebalk (1996) for the period 1935-1954.

a labour market programme)⁸³ for at least 80 days during five months in the year before becoming unemployed, and not have exhausted the right to benefits. In addition, registration at a public employment office is compulsory. The maximum compensation period for people under 55 is 60 weeks, and for those 55 years or above, 90 weeks. The level of compensation is independent both of other insurance sources and the earnings of other members of the household.

Some people who are not entitled to unemployment insurance benefits are entitled to another form of compensation, cash labour market assistance, KAS (*kontant arbetsmarknadsstöd*). The compensation for this is at a low flat rate, which was 265 SEK per work day in 1994 and the first half of 1995. In the second half of 1995, the rate was lowered to 245 SEK per work day and further lowered to 230 SEK from 1 January 1996. The maximum compensation period is 30 weeks for people under 55, 60 weeks for those between 55 and 60, and 90 weeks for those 60 years and older.

To be eligible for KAS, an unemployed person must have worked for a minimum of 75 days during at least 4 months in the 12-month period up to the unemployment spell. In addition, registration at a public employment office is compulsory. KAS payments are administrated by social insurance offices.

In 1995, 58 per cent of registered unemployed people received unemployment insurance benefits and 7 per cent received KAS. Social assistance support is available for people who are not eligible for either unemployment insurance or KAS.

A government investigation is presently trying to find a new structure for cash support during unemployment (see Section 6.2). In March 1996, a blueprint for a new system was outlined.⁸⁴ The main idea is to divide unemployment compensation into two parts, one compulsory and one voluntary. The compulsory part will provide basic support, the same for everyone. The union-related unemployment societies will be a part of the new system, but an additional unemployment insurance society will be set up for those who do not want to be members of any of the unemployment insurance societies. This new organisation will probably handle mainly the compulsory part of the insurance for those who are not members of a trade union. However, the people covered by this organisation will also be able to receive the

⁸³ The extent to which participation in labour market programmes has been included in the time counted for the qualification for unemployment benefits has varied over time. In the 1970s and the 1980s changes were made so that time in programmes was counted to a higher extent. In the last two years the rules have been made more stringent in this respect and future changes in the same direction are announced.

⁸⁴ See SOU (1996:51).

voluntary part of the unemployment insurance from this organisation. The committee is expected to present its final report in October 1996.⁸⁵

According to the employment security law, employers who temporarily lay off workers are obliged to continue to pay the full wage. However, they have been partially compensated from a special fund for the first 30 days in a one-year period in which an employee is temporarily laid off. This system is gradually disappearing, in accordance with a parliamentary decision. There have been no new resources for the fund since 1 July 1995 and payments will continue until the fund is depleted.⁸⁶

4.3 Active measures

It was pointed out earlier that active labour market measures are the centrepiece of Swedish labour market policy and that employment offices are the focus of active labour market policy. As mentioned in Section 2, labour market policy is carried out by the Labour Market Administration (AMV), which is organised in three levels - central, county and local. At the local level, the primary role for employment offices is to match job-seekers (unemployed people or people who want to change jobs) with vacancies. For an unemployed person for whom the employment office is not able to find a job in the ordinary labour market in the short-run, placement in an active measure is an option. The number of programmes is large and has gradually expanded. They can be grouped into demand-side measures, supply-side measures, youth measures, disability programmes and measures supporting self-employment. In Table 14, the average number of participants on various active labour market programmes 1990-1995 is shown.

⁸⁵ Other committees have earlier worked with the organisation of unemployment compensation without any lasting impacts on the system. See e.g. SOU 1993:52. Therefore it is much too early to make a prediction about the most likely outcome of the unemployment compensation system in the future. See also Section 6 for other proposals regarding the unemployment insurance scheme.

⁸⁶ See Edebalk and Wadensjö (1995).

Table 14. Average Number of Participants in Various Active Labour Market Programmes 1990 - 1995

Type of programme	1990	1991	1992	1993	1994	1995
DEMAND SIDE PROGRAMMES						
Temporary job creation scheme	8,100	10,700	15,800	13,900	16,600	14,500
Work experience scheme				35,100	44,100	41,300
Recruitment grants	2,300	4,900	13,400	9,500	25,600	20,800
SUPPLY SIDE PROGRAMMES						
Labour market training	38,600	58,700	86,300	53,100	59,500	54,600
Trainee temporary replacement scheme			8,300	9,700	12,700	11,200
YOUTH PROGRAMMES						
Youth team/public sector job opportunities/ youth practice	3,000	9,600	30,800	57,600	56,600	20,400
Youth introduction/work place introduction					1,100	15,700
Computer workshops						9,300 (Dec.)
Municipal follow-up responsibility						9,600 (Dec.)
DISABILITY PROGRAMMES						
Samhall (disabled employees only)	30,500	29,600	29,100	28,300	28,500	29,200
Sheltered jobs in public sector (OSA)	5,700	5,400	5,500	5,700	5,400	5,600
Work with wage subsidy	45,000	44,500	42,600	42,600	46,400	49,600
Employability institutes (AMI)	5,000	4,700	5,600	6,100	5,700	6,200
MEASURES SUPPORTING SELF-EMPLOYMENT						
Start-up grants				4,800	10,200	10,100

Source: National Labour Market Board (1996d).

4.3.1 Demand side measures

Temporary job creation schemes (*beredskapsarbete*) consist of jobs in the public sector. The programme for such schemes was introduced in the early 1930s and has since then gone through strong counter-cyclical variations. The jobs created should be normal jobs in the public sector which would not otherwise be filled in the short-term. Participants receive the going wage rate for the job. The maximum period of placement in a temporary job creation scheme is six months. The average number of people in the programme was 14,500 in 1995, (see Table 14), which is low given the depth of the recession. From the time this programme started until the early 1970s, the jobs were mainly public investment jobs - road construction and maintenance and building construction are typical examples - and the great majority of those employed were men. Since the 1970s, more of the jobs have been in the public service sector - health care, work in day care centres - and there has been a greater proportion of women participants.

The work experience scheme (*arbetslivsutvecklingsprojekt, ALU*) was introduced in 1993 as a new form of public work and has replaced the older scheme to a large extent. The main differences are that compensation is the same as unemployment insurance benefits, the work must have a training component, and it must be work which would not have been carried out without ALU support. Only people eligible for unemployment insurance benefits may be placed in ALU, and preference is given to those who have almost exhausted their right to unemployment benefits. In 1995, the average number of people in work experience schemes was 41,300 (see Table 14).

The payment of recruitment grants (*rekryteringsstöd*) is a scheme for subsidising employers for part of their wage costs in the period after hiring long-term unemployed workers.⁸⁷ The replacement rate is now 65 per cent and the maximum period six months. The average number of people receiving recruitment grants was 20,800 in 1995 (see Table 14). Most of the jobs are in the private sector (93 per cent in 1995). Almost half of the participants are 24 years or younger and many of them get a permanent job at the same workplace - 44 per cent in 1995.

4.3.2 Supply side measures

Labour market training has gradually expanded since the 1950s.⁸⁸ The two main arguments for this programme have been that it facilitates mobility from unemployment-stricken occupations and regions to those with vacancies and that it enhances the competence of the labour force. However, in the early stages of the present recession it replaced temporary job creation schemes as a counter-cyclical measure to a large extent. In 1995, on average 54,600 people participated in labour market training schemes (see Table 14). In general the allowance is the same as the compensation from the unemployment insurance, while for people who are not members of an unemployment insurance society, the compensation is set at a fixed, low amount.

The trainee temporary replacement scheme was introduced in 1991 and has gradually increased since then. It is a subsidy to companies for the employment of unemployed people who replace employees taking part in training programmes.

⁸⁷ A detailed presentation of the programme and the composition of the participants is given in National Labour Market Board (1995a).

⁸⁸ Labour market training of unemployed people has been used since 1916, see Olli (1996). For a survey of the long-term developments, see Axelsson and Löfgren (1992).

The number of people in temporary replacement schemes was, on average, 11,200 in 1995.

Mobility allowances support unemployed people to move to a vacant job.

Participation on the programme was high up to 1987, when its use was restricted by changes in its rules. In 1995, mobility allowances of the type in existence until 1987 were re-introduced. The new job has to last for at least 6 months and the grant is 10,000 SEK. At the same time commuting grants were introduced for unemployed people who get a job with a travel time of at least 1½ hours, each way per day. The compensation is 1,200 SEK a month for a maximum of 6 months.

4.3.3 Youth measures

Youth programmes were introduced in the early 1980s, first for those aged 16 to 17 and not in school (youth follow-up scheme and youth jobs), and in 1984 for those aged 18 to 19 (youth teams, *ungdomslag*). In this programme, the government paid a grant equal to 100 per cent of the wage cost for employers in the public sector who hired unemployed young people usually on half time jobs. From 1990 to 1992, one of the major programmes was that providing public sector job opportunities (*särskilda inskolningsplatser*), which replaced the youth team measure in 1989.

In July 1992, this measure was replaced by the youth practice programme (*ungdomspraktik*). An employer, who temporarily hires an unemployed young person, pays a fee of 1,000 SEK per month for a maximum of six months (when the programme first started there was no employer fee). The person hired receives a study grant, although special rules apply to people entitled to unemployment benefits. On average, 20,400 people participated in youth practice in 1995, down from 56,600 in 1994 (see Table 14). One of the reasons for this fall is the somewhat improved labour market situation for young people, but the main reason is that other programmes were introduced in 1995. From July 1995 no new placements were made and very few people were still in the programme at the end of the year.

A new programme started in 1994 for young people aged 20-25 - youth introduction (*ungdomsintroduktion*). It was a combination of four months of work place introduction paid by the National Labour Market Board, and six months of employment. This programme was replaced in July 1995 by a more general programme of work place introduction (*arbetsplatsintroduktion*) combining six months of introduction with six months of guaranteed employment with the same employer. On average, 15,700 people participated in these two measures in 1995.

The number of participants rose sharply during the year. 31,500 people were placed on work place introduction in December 1995.

From July 1995 another youth programme was introduced to increase young people's computer skills. The programme, computer workshops (*datortek*), had 9,300 participants in December 1995, with a placement period of three months. It is organised by municipalities for unemployed young people aged 18 to 24.

Earlier, in the 1980s, municipalities were given the responsibility of finding jobs or education for those aged 16-17, through a programme called 'Municipal follow-up responsibility for young people' (*kommunalt uppföljningsansvar för ungdomar*). From October 1995, it was expanded to include people aged 20 years and six months and younger. The programme had 9,600 participants in December 1995.

4.3.4 Disability programmes⁸⁹

Programmes for the employment of disabled workers have gradually expanded since the late 1940s. The three main programmes are:

- (i) employment in *Samhall* (a conglomerate of sheltered workshops);
- (ii) sheltered jobs in the public sector (*offentligt skyddat arbete, OSA*); and
- (iii) work with a wage subsidy (*lönebidrag*).

The sheltered workshops, which have been organised since 1980 as parts of one conglomerate, *Samhall*, are designed for workers who have a disability that makes it very difficult for them to be placed in the ordinary labour market. According to the statutes at least 40 per cent of the disabled employed should be people with severe disabilities. In 1995, on average 29,200 disabled workers were employed by *Samhall*. Many stay in sheltered workshops for very long periods, despite one of the goals of the programme being to rehabilitate people and place them in the ordinary labour market. Table 15 shows that older workers are over-represented among those who work in *Samhall*. Among males aged 60-64 years, 1.4 per cent work in sheltered workshops, compared to 0.65 per cent among those aged 25-54 years.

⁸⁹ See Wadensjö (1984) and (1993b) for more details and a presentation of the long-term development of the disability programmes.

Table 15. Share of the labour force (per cent) in sheltered workshops according to age, February 1995

Age group	Males	Females
20-24	0.13	0.11
25-54	0.65	0.63
55-59	1.25	1.07
60-64	1.40	1.20
Total	0.67	0.63

Sources: Statistics Sweden, Labour Force Surveys; Information from *Samhall*.

A special programme - sheltered work in the public sector (*offentligt skyddat arbete*, OSA) - was introduced in 1986. The programme is intended mainly for people with socio-medical disabilities. The subsidy is determined in the same way as for the programme work with wage subsidy (see below). Earlier the subsidy was always 100 per cent. In 1995, the average number of participants in OSA was 5,600 (see Table 14). Programme participants are slightly younger than those in sheltered workshops, mainly because the programme has only existed for ten years. The average age will probably increase, given that outflow from the programme into jobs in the ordinary labour market is low.

Work with wage subsidy is the labour market programme for disabled people which has the most participants. It consists of jobs in ordinary work places which are subsidised by the National Labour Market Board. The subsidisation rate is dependent on the agreement with the firm and varies depending on the severity of the disability. Since work with wage subsidy is more likely to integrate people into the ordinary labour market, it is given higher priority and is expanding, relative to work in sheltered workshops. However, many people remain in work with wage subsidies for long periods. The proportion of older workers in that programme is lower than in the sheltered workshops; many are in the 40 - 54 age group.

The wage rate for a person in the work with wage subsidy programme is set according to the collective agreement for those with corresponding jobs in the workplace. Income compensation is, therefore, 100 per cent, resulting in little incentive to leave the programme. In 1995, there were on average 49,600 participants (see Table 14).

The Employability Institutes (*Arbetsmarknadsinstitut*, AMI), centres for extensive training and vocational guidance, are usually regarded as a programme for disabled people, although not all participants are disabled. On average, there were 6,200 participants in 1995 (see Table 14), 5,700 registered as disabled. The programme prepares workers for jobs (sheltered or otherwise) or training. The

average length of participation is short (3-4 months) and participants tend to be younger than in the other programmes for the disabled.

In total more than 90,000 people participated, on average, in one of the programmes for disabled workers in 1995. Disabled workers are of course also taking part in programmes other than those specially or mainly targeted on disabled people. For example, in 1995, on average 7,400 of the participants in labour market training and 1,700 of those in temporary job creation schemes were registered as disabled.

4.3.5 Measures supporting self-employment

Another form of active labour market programmes are schemes which help unemployed people to set up their own business or become self-employed. The first measure of this type, grants for resettlement in independent work (*näringshjälp*), was established in 1915, and is one of the oldest labour market programmes. It was devised to enable disabled workers to start a firm, or maintain a small firm or self-employment activity. Up to 1962, the National Social Insurance Board (*Riksförsäkringsverket*) was in charge of the measure. In 1962 the National Labour Market Board took responsibility and the scale of activities expanded.

In July 1984 a new programme was introduced, start-up grants (*starta eget-bidrag*), which lent support to unemployed people who wanted to start their own businesses. After a trial period it became a standard programme from July 1987. The maximum compensation period is six months, with the possibility of a further six months and the compensation is the same as that for people in labour market training. The measure has been given a high priority and has rapidly expanded. In 1995, on average 10,100 people received this type of support.

4.4 The Financing of Passive and Active Labour Market Policy⁹⁰

Active and passive labour market policy programmes are financed from the state budget. The exception is a small contribution from membership fees paid to the unemployment insurance societies (3 per cent of the total expenditures for unemployment insurance benefits in 1996).⁹¹

⁹⁰ This section builds on Anxo and Johannesson (1995). See also Schmid, Reissert and Bruche (1992) for an analysis of the importance of the method of financing for the composition and size of the labour market policy.

⁹¹ See SOU 1996:51, p. 109.

Labour market policy is financed from the state budget in two different ways. A special payroll tax (0.4 per cent) was introduced in 1974, going to an Unemployment Fund. This Fund should cover 65 per cent of the state's contribution to the costs of unemployment insurance. The other 35 per cent is covered by the mainstream state budget.

The fund was replaced by a Labour Market Fund in 1988, financing not only unemployment insurance but also other forms of unemployment compensation, including that for people in the work experience scheme, the trainee temporary replacement scheme, and the allowances for unemployed people taking part in labour market training. The recession of the 1990s led to a deficit in the Labour Market Fund. In 1994, only 26 per cent of the expenditure, instead of 65 per cent, were covered. To counteract this development the payroll tax was increased from 2.12 per cent in 1993 to 4.32 per cent in 1994. The development of the balance of the fund from 1988 to 30 June 1995 is given in Table 16. At the end of June 1995, the Fund was abolished, although the financial system is still the same. The payroll fee is 5.42 per cent from 1 January 1996.

Table 16. The balance of the Labour Market Fund, 1988-1995

Point of time	Balance (billion SEK)
1 July 1988	0
30 June 1989	2.2
30 June 1990	11.1
30 June 1991	17.8
30 June 1992	6.8
30 June 1993	-22.5
30 June 1994	-53.2
30 June 1995	-86.7

Source: SOU 1996:51, p.111.

Those parts of active labour market policy not covered by the pay-roll fee are financed by a direct subsidy, to the National Labour Market Board, from the general budget. This subsidy covers the remaining 35 per cent of the cost for the measures mentioned above, and 100 per cent of the cost for the following measures: employment counselling and placement, mobility allowances support, labour market training, recruitment subsidies, temporary job creation schemes and other demand side measures. *Samhall* receives a direct grant from central government, decided each year by Parliament.

4.5 Subsidies to Promote Employment

In the 1970s, enterprise measures were given a high priority. They were part of a general change of policy aimed at giving higher priority to employment security. Among the measures introduced were subsidies to companies who increased their inventories and to local municipalities who purchased from Swedish producers. Labour market programmes involving subsidies to firms fell out of favour in the 1980s. In the 1990s other forms of enterprise measures have been tested, mainly different forms of marginal employment subsidies.

A temporary special subsidy was given (*generellt anställningsstöd, GAS*) to those firms that increased their employment in 1993, compared to 1992. According to a preliminary figure, 32,000 firms used this special subsidy in 1993. A temporary special reduction in the pay-roll fees (*riktat anställningsstöd, RAS*) was given to those firms which in 1995 employed people who were unemployed in November and December 1994. Around 26,700 people gained employment through this reduction in the pay-roll fee (in a total of 16,700 mostly small firms).⁹² At present, there is no programme of the marginal employment subsidy type.

4.6 Evaluation of Labour Market Policies⁹³

The question of if and how active labour market policies can be used to combat persistently high unemployment in Europe has attracted much, and growing, interest. The current high levels of unemployment have an important structural component which cannot be tackled solely by macroeconomic measures. Active labour market policies are thus seen as measures to improve macroeconomic performance while at the same time ensuring equity in the labour market.

In this context Sweden, with its long tradition of emphasising full employment based on active labour market policy, has often been seen as a leading example. However, evaluation of Swedish programmes indicates that their effects have been less favourable at the beginning of the present recession than in earlier periods.

The majority of available Swedish studies have used data sets generated during periods when the level of unemployment and the extent of labour market policy

⁹² An evaluation of the efficiency of the measures GAS and RAS (regarding, e.g. the size of probable dead-weight effects), is currently underway by Dominique Anxo and Pernilla Dahlin at the Centre for European Labour Market Studies, Gothenburg University. The above figures are taken from preliminary results. The study is expected to be completed in December 1996.

⁹³ For a recent survey covering Swedish evaluation studies, see Zetterberg (1996). This survey is a supplement to the final report of Arbetsmarknadspolitiska kommittén, which put forward proposals to drastic changes of the labour market policy.

programmes were considerably lower and the levels of labour force participation were higher than today. There are indications that participating in labour market programmes, especially in the early 1990s, has increasingly been used as a means of extending benefit eligibility. These factors may mean that the results of the previous analyses are less relevant to the current labour market situation.

Labour market policy may influence the labour market in many different respects - business cycle stabilisation, resource allocation and income distribution. All of these effects are of interest, but most studies tend to focus on just one.

There are a large number of micro-economics studies, i.e. studies that try to evaluate the impact on individual participants in various programmes. Those studies cover both the distributional effects and part of the allocational effects. Their focus is whether participants gain in terms of employment and wage rates and whether the programmes contribute to an efficient distribution of labour in the economy.

The results of the micro-economic studies are diverse (see, e.g., the OECD (1993) overview). This is not surprising as there are great differences between programmes. They differ according to the composition of participants, the content of the programme (training, subsidised jobs, etc.), and the timing of the programme in the business cycle. The skill with which the programmes are implemented may also differ. Thus, it is problematic to draw general conclusions concerning the effects on participants' future earnings and employment prospects.

Forslund and Krueger (1995) comment on the rather inconclusive results of five Swedish micro-studies⁹⁴ of the effects of labour market training on participant's future earnings. The studies cannot reject or confirm the claim that labour market training does not affect future earnings. According to Forslund and Krueger, the present value of labour market training equals its cost if the training increases participants' yearly earnings by 3 per cent in 20 years. However, when the authors combined the five studies and calculated the weighted average estimate, plus the corresponding standard error, they found that this conclusion could not be supported.

A recent study, by Axelsson, Brännäs and Löfgren (1996) indicates that the labour market may be efficient in reducing unemployment for programme participants. They showed that the time in unemployment for those not participating in programmes (including labour market training) is longer than the total period in unemployment and programmes for programme participants. The study is based on

⁹⁴ Ackum (1991); Axelsson and Löfgren (1992); Björklund (1989); Edin (1989) and Regnér (1993).

a much larger sample than any of the earlier studies (all 18 to 55 year olds, newly registered at employment offices in March and April 1993).

Korpi (1994) presents less clear-cut results. This study was based on longitudinal data on young people, during the period 1981-1985. The results indicate that the main factor behind non-negative duration dependence in the Swedish labour market is the labour market programmes, since the programmes pick up those with the worst employment prospects, thus creating a pool of job searchers with better chances on average of finding regular employment. Another result is that programme participation increases later employment stability, both by increasing subsequent employment duration and by minimising the risk of recurrent unemployment.

A study by Sehlstedt and Schröder (1988) shows that the programmes for young people can have positive results, although this depends on whether placements fit in with the occupational plans of the young people (i.e. training for, or experience in, an occupation which the young people want to enter).

The evaluation of labour market programmes for disabled workers show positive results, e.g. Vlachos (1989). However, these studies tend to be problematic since they do not use control groups, but assume that all programme participants would have been receiving disability pensions if not placed on a labour market programme.

One intrinsic problem with micro-economics studies is that in most cases they do not incorporate the effects that active labour market policies may have on the behaviour of non-participants. Such effects would include direct or indirect crowding-out (displacement) effects on regular employment from extensive labour market programmes. These issues can only be studied in a macroeconomic setting, where there is consideration of the link between macroeconomic variables, such as unemployment and real wage levels and the extent of active labour market policies. In contrast to the large number of micro-economics studies, only a small number of macroeconomic studies have been carried out so far.

Calmfors and Skedinger (1995) use data from Statistics Sweden and the National Labour Market Board for the period 1966-1990. Their results indicate that job-creation programmes crowd out regular employment. However, the results on the effects of training programmes on the total jobless rate are inconclusive. There is only weak evidence that targeting young people has favourable effects.

Skedinger (1995), using data on young people for 1971 to 1991, finds that youth programmes generate substantial worker displacement among young people themselves. However, Sjöstrand (1996) questions whether the displacement effects are as large as Skedinger argues.

Another important area of evaluation is the macro-economic effects of labour market programmes. How do they affect the business cycle in terms of total demand in the economy and how do they influence wages and prices?

Ohlsson (1995) shows that one programme - temporary job creation schemes - has consistently been used counter-cyclically up to the early 1990s. This is in contrast to the other programmes and other sectors of the public economy.

Other macro-economic studies examine the influence of programmes on unemployment, wages and prices. For example Layard *et al.* (1991), OECD (1993) and Zetterberg (1995) examine variations between different countries and have found favourable effects of active labour market policies. However, these studies are based on few observations. Layard *et al.* (1991) found that active labour market policies significantly lowered unemployment from 1983 to 1988. When Forslund and Krueger (1995) re-estimated they found that increased expenditure on active labour market measures had an insignificant impact on unemployment. The explanation for this result is that a few countries that they used data from only one year, and that the estimates are very sensitive to short-term variations in the key variables.

Calmfors (1993) uses time-series estimates to indicate that active labour market policy measures increase the upward aggregate wage pressure. The increased wage pressure in turn suggests that the extent of regular employment may be adversely affected. However, this study was also based on a very limited number of observations. Its conclusions are not confirmed in Edin, Holmlund and Östros (1994), who used micro-economics data.

It is clear that the effects of labour market programmes on wages are much discussed, but without any unambiguous conclusions. More research is needed, based mainly on micro-economic and cross-sectional data.

If the competitive position of labour market outsiders, e.g. long-term unemployed and young people, is weak, targeting labour market programmes on such groups need not result in upward wage pressure, e.g. Wadensjö (1995). Labour market programmes may not only (or primarily) influence unemployment, they may also influence labour force participation by encouraging people to remain in the labour market, even though it may be a considerable time before they get a job in the ordinary labour market. Available evidence, see Wadensjö (1995) indicates that there may be effects of this type.

The following are among the conclusions to be drawn from the studies of labour market programmes:

- Labour market policy was used as a fairly efficient counter-cyclical measure to stabilise the business cycle over several decades. In the early 1990s, the timing was not good. Labour market programmes were reduced at the same time as a growth in unemployment.
- The allocational effects of the programmes are inconclusive - positive effects in some studies, negative in others. Whilst this probably reflects the reality that different programmes have different effects, it may also be a result of differences in methodology and the use of small samples. Labour market programmes are not one unified programme, but several very different programmes. Participants differ and the period in which they are used differ, so it should come as no surprise that there are both positive and negative effects.
- Most studies have been conducted in the context of low unemployment. This means that programmes may currently have different effects, given the presently high level of unemployment.
- The effects of programmes on wage formation are still unclear. Studies have produced conflicting results and unsolved methodological problems remain.
- Various studies have shown that unemployment can have a negative effect on people's health. It appears that this does not apply to people who participate in labour market programmes.

5 OTHER POLICIES HAVING AN IMPACT ON THE LABOUR MARKET

5.1 Education and Vocational Training

In 1962, Sweden adopted a common nine year comprehensive school system for those aged 7 to 16. The system was fully established by the school year 1972/73. In the last three years of the comprehensive school (lower secondary school, age 13 to 15), students have certain options, some of which prepare them to a greater extent for further theoretical education.

Compulsory school starts at age 7, although it is possible to start at the age of 6. Most students continue in upper secondary school after their compulsory schooling. From 1971, the length of the study programmes at upper secondary school varied from two to four years. In most cases the theoretical programmes took three years and the vocational programmes two. As well as ordinary study programmes, secondary schools offered several hundred special courses, varying in length from eight weeks to three years.

In 1991, the Swedish parliament decided to re-organise upper secondary schooling to provide sixteen programmes, two theoretical and fourteen vocational. All vocational programmes have been extended to three years. Vocational study programmes involve unpaid external work experience, varying from 5 per cent to 25 per cent of the total study time.

More typical of Sweden than other countries is its high extent of recurrent education and the large scale of labour market training within active labour market policy.⁹⁵ Since the early 1970s, it has been easy for people to return to education and to do so at the previous level. It is also possible to take a break after each stage in the educational system, to obtain labour market experience. Work experience is seen as an advantage when applying to a study programme in upper secondary school or to a university. This has resulted in quite a few university students being in their 30s and 40s, many of them working and studying part-time.

Thus, in Sweden it is common for people to return to school (upper as well as lower secondary) after a period in the labour market. In the autumn term of 1992, there were almost 130,000 students on adult education courses administered by local government. These students are completing their studies at the lower or upper secondary levels and they include many immigrants.

⁹⁵ See for example Jonsson and Gähler (1995) on adult education in Sweden.

All programmes at upper secondary school give general eligibility for higher education. In addition, many sectors of higher education have their own specific requirements, making it necessary for most secondary-school graduates to take some supplementary examinations. The main instrument for selection of students for higher education consists of upper secondary school marks or grades, but a national test (*högskoleprovet*) is used increasingly as an alternative selection instrument.

Most statistics on education and training cover only that which is organised or subsidised by the public sector. In the last few years, *Statistics Sweden* has started to survey training financed partly or totally by employers. According to the 1994 survey, 38 per cent of all people in the labour force took part in training during the first half of 1994.⁹⁶ Most of them were on short-term training, the average period being 7 working days. 5 per cent of the labour force took part in training lasting more than six working days. The total amount of training corresponds to 104,000 people in full time training, which demonstrates its importance.

Women participated in training to a somewhat higher extent than men, but for slightly shorter average periods. The main differences in participation relate to people's educational attainment - people with higher education receive much more training. There are also large differences between industries. Banking and Insurance and Business Services are the two sectors with the highest participation rates.

Several recent major government commissions, such as the Commission on Productivity and the Economy Commission, have all recommended an increased emphasis on education, training and research. The response from the Swedish Parliament, the *Riksdag*, and the Government has been to increase the resources allocated to education, training and research, despite fiscal restraint in most of the public sector in the current recession. The vocational study programmes in secondary school have been lengthened and the number of university students has increased rapidly in the early 1990s. Special emphasis has been placed on post-graduate studies - an output of 2,000 PhDs a year is the aim of this policy.

A new problem for the education system is the growing number of students at all levels who do not have Swedish as their mother tongue. It has become a problem, especially in some suburbs of the three big cities, where immigrants constitute a majority. Concern about the education and labour market prospects of second

⁹⁶ See Statistics Sweden (1995).

generation immigrants is a main theme in the current Swedish debate (see Section 6.2).

As in other industrialised countries, the expansion of the education system has led to a gradual increase in the average level of educational attainment among the population. The proportion of the 25 to 64 age group without any high-school education has decreased, from 56 per cent in 1971, to 23 per cent in 1995.⁹⁷ At the same time, the proportion with higher education has gradually increased and is now more than 25 per cent. The proportion of the population in Sweden with higher education is, along with Norway and Germany, the highest in Europe, although the proportions are even larger in Canada, the United States and Australia.⁹⁸

Educational attainment is, in most cases, measured by the number of years in school or the exams taken. More interesting would be to assess the actual knowledge and skills of the labour force. A recent study, OECD (1995e) tried to measure literacy in three groups of the population (aged 16 to 65) in seven countries by testing random samples. A first round of studies has now been published, covering Sweden, Canada (English and French speaking parts), Germany, the Netherlands, Poland, Switzerland (French and German speaking parts) and the United States.

The results show that Sweden has the highest literacy level. This is the case for the total population and at every educational level. In Sweden, as in all the other countries except Canada, immigrants have a lower literacy level than non-immigrants.

The opportunity to get an education beyond compulsory schooling have gradually increased in Sweden. The changes in the take-up of continuing education have been strongest amongst those sectors of society with the lowest educational tradition.⁹⁹ Inequality in educational opportunities has generally decreased in Sweden during the last few decades.

The wage premium associated with higher levels of education decreased sharply in the 1970s, due mainly to the sharp increase in the supply of people with upper secondary school or higher education. The premium for higher education, however, gradually increased in the 1980s. Throughout, the unemployment rate has been lower for those with higher levels of education. Increasing wage differentials, the unemployment differential and the recession in the 1990s help to explain the surge in

⁹⁷ See Statistics Sweden (1971) and (1996b).

⁹⁸ See Edin, Fredriksson and Holmlund (1994).

⁹⁹ See Erikson and Jonsson (1996).

university and higher education applications.¹⁰⁰ As the cohorts entering the labour market will be much more educated than those leaving it, the skill level of the labour force will continue to increase in the future.

5.2 Taxes and Benefits

5.2.1 Tax reform

Up to the early 1990s, Sweden had a highly progressive income tax system. The latest major Swedish tax reform in 1991-1992 brought about fundamental changes in the tax structure.¹⁰¹ The main change concerned the income tax system. The tax rate, especially the marginal income tax rate was lowered. As a result, the importance of state income tax declined. Income tax is still the most important source of income for the public sector, but the main part of income tax is the proportional municipal and county income tax. The tax reform also broadened the tax base to counteract the loss of proceeds from the state income tax. In particular, value added tax was extended to new areas. Payroll tax is the third other important source of tax revenue.

The aggregate tax revenues as a share of GDP in Sweden is among the highest of the OECD countries. The rate was at its highest in 1989 and 1990, around 56 per cent, but is still over 50 per cent in 1996.

The main aim of the tax reform was to increase incentives to work and save. As such, it is one of the main labour market reforms in recent decades. It is, however, difficult to estimate the effects on labour supply as Sweden entered a recession at the same time as the tax reform. The commission evaluating the reform considers that it has increased the total labour supply by about 1-2 per cent, but stresses the uncertainty of their conclusions, given the difficulty of estimating the influence of the recession on labour supply.¹⁰²

The Swedish social security system consists in general of two or three tiers: a social security scheme, a collectively bargained scheme and private insurance. The following sections describe some of the social security schemes of most importance for the functioning of the labour market.

¹⁰⁰ See Edin, Fredriksson and Holmlund (1994).

¹⁰¹ See Statistics Sweden (1994) for an overview of the present tax system and the structure of tax revenues.

¹⁰² See Agell, Englund and Södersten (1995), Chapter 5.

5.2.2 The old age and disability pension scheme

Since 1960 the social security pension system in Sweden has consisted of two parts: a basic pension (*folkpension*) and a supplementary earnings related pension (*allmän tilläggspension*, ATP). The two parts together replace about 65 per cent of earnings (more for those with low earnings), up to a ceiling. The pensions are indexed, in line with the consumer price index and the 'base amount' is 36,200 SEK in 1996¹⁰³ (for calculating social security pensions a 'base amount' reduced by 2 per cent is presently used).

The basic pension has been the same for everyone except married couples, when both have old age pensions. The sum of their individual pensions is less than double that of a person whose spouse does not have an old-age pension. From 1993, a new requirement was introduced. To receive a full basic pension, a person must have either 40 years of residence in Sweden between the ages of 16 and 64 or 30 years of earnings (only years with earnings corresponding to one base amount or more are included). If the requirements are not met, the pension is reduced proportionally.

To be eligible for a full supplementary pension - the ATP-pension - 30 years of earnings (over a certain low level) has been required and the pension has been based on the average of the 15 years with the highest (real) earnings. If a person has less than 30 years of earnings the pension is reduced proportionally. There is a ceiling of 7.5 times the 'base amount'. Earnings over the ceiling do not affect the size of the pension. Additional pension supplements and housing supplements are granted to people who have no, or low, supplementary pensions.

The retirement age has been 65 but a reduced pension has been an option from the age of 60, and a delay of the pension to the age of 70 has been compensated with an enhanced pension. Since 1960 it has been possible for people aged 60 or more to draw a half old age pension (with the same type of reduction). Since July 1993, options of quarter and three-quarter pensions have also been available.

Labour legislation gives job security in the form of seniority rules at layoffs, up to the age of 67. Mandatory retirement rules are allowed from that age and it is possible for an employer to lay off a worker aged 67 or more with only one month's notice. The rules of job security law can be changed by collective agreement and in most cases the social partners have changed the age limit from 67 to 65.

¹⁰³ The 'base amount' is a concept derived from social insurance. The concept was invented in order to permit the calculation of benefits and incomes to be smoothly adjusted to changes in price levels.

The disability pension is part of the same system and has been calculated in the same way as the old age pension, except that earnings for the period from retirement up to the age of 65 have been estimated in calculating the pension ('assumption points'). In 1970, it became possible to take labour market reasons together with medical reasons into account when granting a disability pension for people aged 63 or older (changed to 60 in 1976). In 1972 it became possible to grant a disability pension for labour market reasons only for people aged 63 or older (changed to 60 in 1974).

In practice, this meant that people aged 63 (60 from 1974) who had exhausted their eligibility for unemployment compensation were disability pensioned. As the maximum period for unemployment compensation is 1 year and 9 months for people aged 55 or more, those aged 58 years and 3 months who became unemployed could in practice 'retire'. This combination of payments from two income transfer systems was called '58.3 pensions'. The granting of these 'unemployment' pensions was discontinued from October 1991 and the granting of disability pensions for combined medical and labour market reasons will be abolished from 1 January 1997.

The pension system is a pay-as-you-go system, but with partial funding of supplementary pensions. The funds, the AP-funds (*allmänna pensionsfonderna*), amounted to 548,279 million SEK at the end of 1995. The supplementary pensions are financed mainly by an employer fee and the basic pension is financed from the state budget and an additional, special payroll fee.

The new pension system

The pension system has been the focus of an intense debate during the last decade and parliamentary and governmental committees have investigated all aspects of the system. The main concerns have been that several factors will lead to very high pay-roll fees in the first decades of the next century if the system is not changed. Such factors include: the decline in economic growth, longer life expectancy, increased reliance on disability pensions and other forms of early exit from the labour market and the pensioning of the baby-boom generation of the 1940s.

Parliament decided that the new pension system should be implemented from 1 January 1997, in terms of the payment of fees (the payment of a small part of the fees started in 1995) and the accumulation of pension credits. This will probably be delayed by two years. The first pensions in the new system will start to be paid from 1 January 2000.

The main aim of the new pension system is to increase work incentives by making it actuarially fair and viable. The system should be more of an insurance system and less a means of income redistribution. However, a second aim of the reform is that the pension system should guarantee a basic income for everyone at old age.

The pensions will be based on earnings in every year for those aged 16 years or more, including earnings after the age of 65. An amount corresponding to 18.5 per cent of earnings will constitute the pension credits accrued in a year (the same as the fee, see below). When calculating the pension, several factors in addition to earnings will be taken into account: military service, care of children up to the age of four, some years of study and years during which disability pensions have been received. In general, hypothetical earnings are calculated, for example for those who are caring for their children, and pension credits corresponding to 18.5 per cent of the hypothetical earnings are added to the person's account. For transfer payments, the earnings upon which the transfer payment is based constitute the hypothetical earnings. Pension credits corresponding to 13.3 per cent of these earnings are added. The pension credits are indexed to the changes in total earnings in the economy.

Each year the accumulated pension credits of those who have reached 65 years of age in that year are transformed to a pension. This is done by using a partition rate, a rate which is decided anew for every cohort upon reaching 65. The size of the partition rate and therefore the pension, depends on the expected period for which those who become 65 will receive a pension. As expected life-expectancy increases with each cohort, the partition rate will gradually increase.

Secondly, there will also be a guarantee-pension for those with low or no earnings. For a full guarantee-pension, the applicant must have lived in Sweden for at least 40 years between 16 and 65 years of age. A full guarantee-pension is 2.1 times the 'base amount' for an unmarried pensioner and 1.87 'base amounts' for a married pensioner. The guarantee-pension is reduced if the pensioner receives an earnings-related old-age pension. If the total pension is 3.0 or more 'base amounts' for an unmarried pensioner, or 2.655 'base amount' or more for a married pensioner, the pension will consist of only the earnings-related pension. The pensions will be indexed to a new price and growth related index.

The new pensions will be financed by fees which amount to 18.5 per cent of earnings. As mentioned earlier, not only earnings but also military service, and child care etc. will generate pension credits. The state will pay fees covering the pension

credits acquired in this way. The costs for the guarantee-pensions will also be funded from the state budget.

The system will mainly be a pay-as-you-go system but part of it will be a premium reserve system. 16.5 per cent of the fees are paid to the pay-as-you-go system and 2 per cent to the premium reserve system. Payments to the premium reserve system had already started from the fiscal year 1995.

The present plan is that half of the fee will be paid by the employer and half by the employee. At present, supplementary pensions are financed by an employer fee. For the new system, the employee fee will be raised to 9.25 per cent of the earnings in one step. At the same time, the employer fee will be decreased by the same percentage and the wage rate increased by the same percentage. Thus neither employees nor employers should gain or lose from the changes in the funding system. By changing from employer fees to employee fees, it is anticipated that employees will be more aware that they are paying for the right to a pension, thereby strengthening work incentives.

Married couples can divide their pension credits if both spouses were born in 1954 or later. A prerequisite is that both spouses apply and that the application is made before 31 January in the year in which they want to divide the pension credits. Once the application has been made, the division of the pension credits continues until an application is made for discontinuation. If the couple both apply for discontinuation it becomes valid from the year of the application. If only one of the spouses apply, it becomes valid from the year after the application. When pension credits are divided, an adjustment is to take account of the different life expectancy for men and women. This has been much criticised.

The change to actuarial pensions is intended to increase labour supply and postpone retirement. Other steps, with the same aims, have been taken. Previously, a reduced old age pension could be received from the age of 60, but in the new pension system 61 will be the lowest age (this change will take place from 1999). It is only possible to receive an early pension if it is an earnings-related pension and a guarantee pension will still only be available from the age of 65. For someone receiving an early old age earnings-related pension, the guarantee pension will be calculated as if the pension is what it would have been if the person had retired at the age of 65.

The committee proposed that job security according to labour market legislation should be changed so that collective agreements could not influence the age limit and that this limit should be raised, first to 66 and later to 67. However, the

Government proposed that either the social partners should change their collective agreements to bring about the same effect or, if they did not, that the job security law should be changed accordingly.

The disability pensions will not be part of the new old age pension system in the same way as they are of the present system. Instead, they will be integrated with the health insurance and sickness benefit schemes according to the guidelines on pension reform by the Swedish Parliament, the Riksdag, in 1994. A special parliamentary committee, *Sjuk- och arbetsskadekommittén*, presented its final report 2 July 1996, containing proposals for change in the sickness benefit, occupational injury and disability pension schemes. As regards disability pensions the committee proposed a new monthly compensation after one year of sickness benefits, with a replacement rate of 65 per cent of the income before becoming sick. According to the proposal, people receiving the monthly compensation should be offered and be obliged to take part in various rehabilitation programmes. The intention is that fewer people should leave the labour market early.

5.2.3 Part-time pension¹⁰⁴

An important difference between Sweden and most other countries is that in Sweden it is possible to combine part-time work with a part-time pension, thus facilitating gradual withdrawal from the labour force. There are three possible ways of doing this:

- 1) Between the ages of 60 and 65, a partial early old-age pension may be drawn, i.e. one may combine part-time retirement with part-time work. Between 1960 and 1993 the only alternative to a full-time, early old age pension was a half pension. From July 1993 onwards, however, it has been possible to draw quarter, half and three quarters of the pension. An early partial drawing of the pension means that the pension is reduced, a reduction that continues after the official retirement age at 65. Conversely, a postponed drawing of part of the pension, i.e. starting or continuing part-time work after that age until 70, increases the pension.
- 2) Combining a disability pension with work is also possible. Between 1970 and 1993, three forms of disability pension were possible: the full pension and, for those retaining some work capacity, a two-thirds and a half pension. As of July 1993,

¹⁰⁴ See Wadensjö (1996b) for details.

two new types were added: the quarter and three-quarters pensions, and no new two-thirds pensions were granted.

- 3) A partial pension scheme was launched in July 1976 with the following eligibility requirements: i) the candidate had to be between 60 and 65 years, ii) work time had to be reduced by at least 5 hours a week, iii) remaining work time had to amount to at least 17 hours a week, iv) the candidate must have worked at least 10 years since the age of 45, and v) had to reside in Sweden. The income replacement rate under the scheme was 65 per cent up to 1981, when, until 1987, it was lowered to 50 per cent, after which it was restored to 65 per cent. In 1994 the Swedish Parliament, the *Riksdag*, made changes as part of a new old age pension system. The starting age for entitlement to a partial pension was raised from 60 to 61 years, the replacement rate was lowered from 65 to 55 per cent, and the maximum reduction for which there was compensation was set at ten hours.

The inflow of new partial pensions has varied with the replacement rate and the business cycle. It has been higher in periods of higher replacement and of high unemployment. The inflow was especially high in 1980 and 1992. In 1980 it was announced that, as of 1981, the replacement rate for new partial pensions would be reduced from 65 to 50 per cent and many people chose to apply for a partial pension before that reduction took place. In 1992, the Government first tried to discontinue the granting of new partial pensions and later to lower the replacement rate. On both occasions many people made applications before the intended dates of the change, and on both occasions the Government failed to get support for the proposals in the *Riksdag*. The number of partial pensions increased somewhat in 1994, probably as a response to changes in the rules for compensation and in the number of hours compensated.

As already stated, from 1995 onwards, only a reduction of ten hours will be compensated for. The majority, 72 per cent of men and 53 per cent of women in June 1994, had reduced their work time by more than 10 hours. A reduction from 40 to 20 hours, from full-time to half-time, has proved to be quite common. It is likely that employers have found this form of reduction easy to manage by letting two persons share a full-time job. Under the new rules, however, this will in most cases no longer be possible.

The new pension system will also lead to further changes in the partial pension scheme, which has been the most popular way of combining work and retirement between 60 and 65. No new partial pensions will be granted from the year 2000. The

remaining combination of work and retirement in that age group will be partial old age pension from the age of 61 or over. As in the present pension system it will be possible to draw a quarter, half and three-quarters of an old age pension.

The number of people in the various part-time pension schemes has varied over time, mainly as a result of changes in the rules. The numbers of people in the schemes in 1980, 1986 and 1995 are shown in Table 17. The number of people in the most popular scheme, the partial pension scheme, declined strongly from 50,600 in 1994, to 38,100 in 1995, mainly as a result of the increase in the minimum age from 60 to 61. This development was only partially counteracted by increases in the two other part-time pension schemes.

Table 17. People (Aged 60-64) in Various Part-Time Pension Schemes, December 1980, 1986 and 1995

	1980		1986		1995	
	Men	Women	Men	Women	Men	Women
Disability pension						
3/4					1,015	570
2/3	1,400	2,512	1,110	2,246	536	687
1/2	4,219	2,854	7,214	6,030	7,946	9,698
1/4					399	826
Early old age pension						
3/4					102	27
1/2	416	79	2,297	310	2,346	454
1/4					760	140
Partial pension	46,504	21,333	18,560	13,620	23,525	14,608
Total	52,123	23,929	29,811	22,206	36,629	27,008

Sources: National Social Insurance Board (1981), (1986) and (1996a)

5.2.4 Sickness cash and occupational injury benefits

The labour supply may also be influenced by the compensation systems for sickness and occupational injury. A higher compensation rate (shorter waiting period, higher income replacement) may lead to higher absence from work.

There are two social insurance systems covering income losses due to illness and occupational injury. The two systems are closely related and administered by the National Social Insurance Board. Compensation in the two systems has gradually been raised in the post-war period up to the late 1980s, so that the replacement rate in the late 1980s was 90 per cent (up to a ceiling) at sickness, with no waiting period. Concern about the cost and the increase in absenteeism led to a change in policy

in the late 1980s. The economic crisis and the budget deficit in the early 1990s led to further cuts in compensation for sickness.¹⁰⁵

The replacement rate has been lowered, in steps, from 90 to 75 per cent, and a waiting period has been introduced for all (also for groups who previously had been compensated from the first day, in line with collective agreements). Another change is that compensation during the first two weeks of an illness period is paid by the employer, not by health insurance.

There appear to be several reasons for the decline in registered absences from work due to sickness.¹⁰⁶ Besides actual changes related to changes in the compensation system,¹⁰⁷ the recession may also (as in earlier recessions) have played a part (and increased labour supply measured in working hours). A particular problem is that not all short-time absence due to illness is reported to the National Social Insurance Board. As a result, compensation is paid by the employer and not health insurance.

5.2.5 Collectively bargained insurance schemes

Sweden has a broad social insurance system, as well as a broad collectively bargained insurance system.¹⁰⁸ There are four main collectively bargained insurance schemes, covering:

- blue-collar workers in the private sector
- white-collar workers in the private sector
- employees in the state sector, and
- employees in local government (the municipalities and counties).

The four schemes, together with some additional minor ones, in practice cover the entire labour market.

Whilst there are some differences between the social insurance and collectively bargained systems, the similarities are more important. For old age, disability, sickness and occupational injury, the collectively bargained schemes supplement the compensation from the social insurance schemes by, in most cases, 10 percentage

¹⁰⁵ SOU 1994:72 gives the details of the changes in the rules in the 1980s and the 1990s.

¹⁰⁶ See SOU 1995:59 for several studies of the effects of the changes of the health insurance scheme on absence.

¹⁰⁷ One consequence may be that people use vacation days when sick to avoid income losses.

¹⁰⁸ For survey of the systems see Edebalk and Wadensjö (1989) and Edebalk, Ståhlberg and Wadensjö (1996).

units. This means that the actual compensation at sickness is not 75 per cent, but 85 per cent. More important for the high income groups, is that the occupational insurance schemes also compensate for income losses above the ceiling specified by the social insurance schemes - the compensation is in most cases 65 per cent.

There is also some collectively bargained insurance for which there do not exist any counterparts in the social insurance system. The most important ones are the severance pay insurance schemes.

5.3 Industrial Policies

Swedish industrial policy was for a long period a policy of non-intervention. The state sector was small and the subsidies of limited importance. The climate changed in the late 1960s, when a special ministry of industrial affairs was created and an industrial policy formulated. A period of active industrial policy began. The test of that policy came in the 1970s, with the structural crisis following the first oil crisis. Several of the crisis industries were nationalised, for example the shipyards and the main part of the steel industry, whilst others were subsidised. The total costs for industrial subsidies increased from 3 billion SEK to 15 billion SEK (in current prices) between 1973 and 1979. Most of the support was firm-specific subsidies in industries with huge structural problems (e.g. shipyards, steel industry, forest based industries, mines, and textile and clothing industries which were the main receivers).¹⁰⁹

The industrial policy of the 1970s was regarded as a failure by all major political parties. Since then, there have been very few firm-specific industrial subsidies, except to support the ailing banking sector in the 1990s. Less favourable attitudes towards industrial policy do not mean the end of all forms of industrial support. Subsidies for small firms, support for research and development and support as part of regional policy (see below) are the favoured forms of industrial policy.

The main developments in the industrial policies of the 1980s and the 1990s have been deregulation and privatisation. Several markets have been deregulated, such as the tele-communications sector and taxi transport, whilst some state industries have been privatised.¹¹⁰

¹⁰⁹ For an account of the Swedish industrial policy in the 1970s, see Landesmann (1992).

¹¹⁰ For an overview, see SOU 1995:4, chapter 9.7.

5.4 Regional Policies

The regional differences in wage rates and unemployment are, as mentioned in Section 1.5, small in Sweden compared to many other European countries. The wages are higher in Stockholm than in other areas of Sweden, but wage differentials between other counties are relatively small. The differences in unemployment are more visible. In particular, the forest counties - the seven most northern counties - have had long-term employment problems, setting the rationale for regional policy.

Sweden has had an active regional policy since the 1960s, although the political debate had already started in the 1940s.¹¹¹ Regional policy has consisted mainly of various types of subsidy aimed at firms in designated areas. The extent and the definition of the areas has changed over time. In 1996, there are three groups of areas:

- support area 1 (*stödområde 1*)
- support area 2 (*stödområde 2*) and
- temporary support area (*tillfälligt stödområde*).

Support area 1 is the region with the most serious problems and consists of the interior part of Norrland, the most northern of the three main parts of Sweden. Support area 2 consists mainly of other parts of Norrland (except most of the municipalities on the Baltic sea) and the western part of Svealand (the second northern of the three parts of Sweden) and some municipalities in the north-western part of Götaland (the most southern of the three parts of Sweden). The temporary support area consists of municipalities throughout Sweden which are regarded as having problems of a more temporary nature.

Firms starting or expanding their activities in the support areas receive different forms of support: lower payroll taxes, subsidised transports, investment subsidies and support for expansion of the workforce (employment subsidies). The design and the composition of the programmes have varied over time. The employment subsidy is at present for five years, after which the firm should have expanded its workforce. The size of the subsidy gradually declines over the five year period, and it is higher in support area 1 than in support area 2.

Another aspect of regional policy is transfer of central government authorities from the Stockholm area to other parts of Sweden. This policy also started in the 1960s.

¹¹¹ See Elander (1978) for a detailed account of the political debate on regional policy from 1940 to 1972.

As a result of joining the European Union, regional policy has changed slightly, although regional subsidies have increased overall. There are now higher investment subsidies, and fewer subsidies for investment in infrastructure and lower transport subsidies.

One of the two *Employment Bills* (Prop. 1995/96:222) presents proposals for an expansion of regional policy. Measures include: further support to small firms in the support areas, more support to the tourist industry and higher investment subsidies to the agricultural sector.

6 THE NATIONAL DEBATE - POLICY PERSPECTIVES

6.1 Major Topics of Debate

One of the currently most widely debated labour market topics in Sweden focuses on the potential net employment effect of labour market deregulation and increased flexibility in the labour market. This is sometimes connected to anticipated changes in the way work is carried out and the reorganisation of the workplace, associated with the growing use of information technology.

What appears to be the current main controversial issue in the area of deregulation and flexibility is the future of the inverse seniority rules and the rules on giving notice to lay-off (see section 3.1.1). The social partners widely disagree on these matters. In March 1995, the Government formed the Labour Law Commission, consisting mainly of representatives from the social partners, in order to reach an agreement on reforming labour legislation. The aim of the Commission was that the social partners should themselves, by using collective agreements, be able to formulate new labour market rules that are as 'simple and efficient' as possible.

The Commission presented the results of its work in May 1996. The social partners stated that they could not support the proposals concerning certain regulatory issues put forward by the Commission chairman, especially the proposed changes in the inverse seniority rules. The social partners informed the Government that they intended to continue efforts to reach one or more joint agreements between the parties in the area of labour legislation. In this context, the Government made mediators available to the social partners.

In late August, the mediators reported that the social partners in the private sector did not reach an agreement, although negotiations could continue in the public sector. As a consequence, the Government decided, together with the Centre Party, to present a draft of a report to the Drafts Legislation Advisory Committee containing alterations of the current labour legislation.

The report was presented at the beginning of September. It suggested that up to five employees in every firm could be hired on a fixed contract during, at the most, 12 months, without any special motivation (such as a temporary workload). In new firms, the longest permitted duration is 18 months. The signing of local agreements regarding exceptions from employment protection legislation is facilitated; the central union does not have to approve of such an agreement. However, the regulation concerning, e.g. the inverse seniority rules is not changed. The social partners are invited to a hearing concerning this report in late September and the

Government will present a proposition on altered labour legislation later during autumn 1996.

Another debated topic concerns how wage negotiations (see sections 2.2.3 and 2.3) should be conducted in future. In the *Spring Fiscal Policy Bill*, the Government stated that wage formation must primarily be a matter for the social partners and that the social partners should specify how the wage formation process will generate wage increases on a sound European level, when unemployment levels are markedly lower than at present.

A similar view has been put forward by the Edin group (a group of economists from the trade unions and employers' organisations) which agrees that wage increases in Sweden should not exceed those in other OECD-countries in Europe.

Following publication of the *Spring Fiscal Policy Bill*, the Government has invited the social partners to talks on the problems of wage formation, although this strategy is not new (see section 2.2.3). The social partners are keen to participate. The social partners have until 31 March 1997 to jointly solve the wage formation problems.

The problems with employment protection legislation and wage formation are also reflected upon in general terms in the two *Employment Bills* (June 1996). There, the Government states that labour legislation needs to be amended and must be formulated in such a way as to reflect a reasonable balance between the need of wage-earners for protection against arbitrary and discriminatory decisions and the need for enterprises to continuously adapt their organisation and work force to changed circumstances and needs.

The Government also states that wage formation does not function satisfactorily at present, which is reflected, *inter alia*, by wage increases generally being at a higher level than in competitor countries. Wage formation must thus be improved and take into account the interests of the unemployed to a greater extent than at present.

The earlier mentioned Bills focus heavily on expanding education and the concept of 'life-long learning', as a way to improve the labour market situation, especially in the long run. In the partial report from the Commission for the Promotion of Adult Education and Training (see section 6.2), goals for a national competence boost for adults as a part of a strategy for life-long learning are presented.

It is often questioned whether education can really be the panacea for unemployment. For example, will there be as many new - and suitable - jobs as there are people leaving the education system within a couple of years? A related question concerns what will happen to the quality of education when the number of

students increases so greatly. There are already signs of a shortage of teachers in the university colleges in the near future.

Another important topic is the size of the possible net employment effect of the presently very extensive active labour market policy. Employers' organisations are critical, while the unions take a more defensive stand.

From the employers' side, it is sometimes asserted that such programme participation will not substantially increase the chances of employment. Rather, they say, it is the minimum wages in the collective agreements (there is no legislation on minimum wages in Sweden, see section 3.3), that are too high and the employment protection legislation that is too strict.

In the final report by the Committee on Swedish Labour Market Policy (see section 6.2), these and other problems related to active labour market policy are treated in more depth. In the *Spring Fiscal Policy Bill* and especially in the *Employment Bills*, the need for revision and increased efficiency of active labour market policy is stated, together with some proposed actions. The Government proposes, e.g., that local employment offices will be strengthened, that the municipalities will be given a more central role and that the use of labour market programme funds will become more flexible and individual oriented.

The extensive use of active labour market policy is closely related to a specific aspect of long-term unemployment, i.e. the system of renewing unemployment benefit eligibility by participating in a labour market programme. Thus far there has been no upper limit on the period over which spells of unemployment with unemployment compensation can be alternated with periods of programme participation that are also compensated. The problem is also linked with the issue of extensive recurrent unemployment, i.e. people who alternate unemployment, labour market programme participation and short, temporary jobs.

The Committee on Swedish Labour Market Policy has proposed (without specifying a timescale) that an upper limit should be introduced, *inter alia*, to make it clearer that unemployment insurance is an adjustment cover. In conjunction with the *Employment Bills*, the Government proposed that the total period of unemployment compensation combined with labour market programme measures, or study with a grant equivalent to unemployment benefit, should be a maximum of three years (possibly extended to four years for people who have had regular employment during the compensation period). The Government stated that active labour market policy must not be downgraded to simply being a means of qualifying for a new

period of compensation. Quality will then be imperilled. The majority in the *Riksdag* voted for this proposal and the new rules will come into force 1 January 1997.

This change in the unemployment benefit system is not welcomed by the unions and some local governments. The unions fear that the people who are no longer covered by the unemployment benefit system will be economically and socially stigmatised. The local governments suspect that they will have to carry some of the costs that would otherwise have been paid within the unemployment benefit system. Their costs would arise through social allowances which would be the remaining means of support for unemployed people if unemployment benefit is not available.

The level of unemployment benefit is also debated. The Swedish Trade Union Confederation (LO) and the Swedish Confederation of Professional Employees (TCO), in particular, demand that benefit levels should be restored to the original 90 per cent of previous income.

In the *Employment Bills*, the Government considers that the level of compensation should be increased by 80 per cent, as of 1 January 1998. This increase will be fully financed by changes in the rules of the unemployment benefit system. However, no proposal on this has yet been submitted to the *Riksdag*. The Commission on Unemployment Benefits (see section 6.2) will submit its final report with proposed changes in October 1996.

Gender issues on the labour market are also debated, often concerning possible employment consequences of cuts in the public sector, which accounts for more than half of employed women (see section 1.3), while employment in a number of sectors dominated by men are expected to grow. The final report from the Commission on Women's Labour Market (see section 6.2) focuses on the consequences of the recession on employment from a gender perspective and on the division of the labour market with respect to gender.

One of the results in the study indicates that women are at disadvantage concerning active labour market policy measures. Since no analysis on active labour market policy measures from a gender perspective has been made before, the Commission suggests that such an analysis should be made. In one of the *Employment Bills*, the Government has required the National Audit Bureau to review active labour market policy measures from a gender perspective.

A heated issue concerns wage discrimination on the basis of gender. In 1995, there was an increase in the number of complaints to the Equal Opportunities Ombudsman (see section 3.1), with a focus towards wage discrimination.

In many of these cases, the people filling complaints are nurses in the public sector. In 1995, the union that organised nurses went on strike for higher wages. In April 1996, there was a case in the Labour Court that attracted much attention in which the Equal Opportunity Ombudsman argued that the employer, a hospital, had paid a female nurse a lower wage than a male medical technician who was less qualified. The verdict was that it could not be concluded that the wage of the woman was lower because of sex discrimination, since the work evaluation scheme which had been used was deemed not reliable by the Labour Court.

However, this verdict was not a precedent, so it is likely that new and similar cases will appear before the Labour Court within the near future, utilising more elaborate work evaluation schemes.

An issue often discussed is the very serious deterioration of the labour market prospects of (especially recently arrived) immigrants in the 1990s (see sections 1.2, 1.4 and 5.1). In order to counteract some of the unemployment problems of immigrants, the ratio of immigrants in labour market programmes to the number of unemployed immigrants is high. However, this is far from enough. There is a fear that the marginalisation of immigrants in the labour market will lead to the emergence of a sub-culture of people who are excluded from mainstream society. The final report by the Committee on Immigrant Policy (see section 6.2) presents measures that are specifically targeted to combat unemployment among immigrants.

Whether a general reduction of working hours is a possible means of increasing employment is often debated. The employers' organisations are widely opposed to this, while the opinions expressed by the unions are more diverse. Some employers' organisations propose that the number of working hours should be adjusted to the current stages in the business cycle, while the total number of hours over one business cycle should remain unchanged. This is becoming more and more common. The paradox arising from the currently very extensive use of overtime and the high, open unemployment rate is also often discussed.

It is often recognised that increased labour market flexibility implies more variable working hours. The Working Hours Commission (see section 6.2) has, *inter alia*, been given the task of evaluating how a balance is to be struck between firms' increased need for working hours flexibility with employees' need for security and influence over the length and location of work. The Working Hours Commission will also study whether there is any correlation between shorter working hours and the possibility for more people to obtain work. In the *Employment Bills*, the Government announced that after the Working Hours Commission has presented its findings in autumn 1996,

the Government will introduce a Bill in the Swedish Parliament, the Riksdag on these matters.

6.2 Recent and current work by Government committees and commissions

Most of the above issues in the national debate are addressed in major projects undertaken by committees or commissions initiated by the Government. A brief overview of such initiatives and the content of their published reports (with the exception of the Labour Law Commission presented in Section 6.1), is given in this section.

The Committee on Swedish Labour Market Policy (*Arbetsmarknadspolitiska kommittén*) initiated by the Government in the autumn of 1993, had a broad mandate to study the role of labour market policy, its scope, focus and limitations. In the Committee's final report (SOU 1996:34), it is emphasised that the goals for labour market policy should be limited to keeping vacancy periods short, decreasing long-term unemployment and preventing long periods without regular work. It is pointed out that there are too many different types of active labour market measures today. It is further stressed that it is inappropriate for active labour market measures to be as extensive as they have been in recent years.

In the partial report (SOU 1996:51) from the Commission on Unemployment Benefits (*Utredningen om ersättning vid arbetslöshet och omställning*), it is suggested that the unemployment benefit system should be changed. The report proposes that the cash assistance system (KAS) should be abolished and unemployment insurance should be divided into two parts - a compulsory flat-rate insurance and another optional, income-related insurance. The lowest (flat-rate) unemployment benefit should be 6,500 SEK. The unemployment insurance societies should administer all the unemployment benefits and a new unemployment insurance society, that is not associated with any union, should be created. The Commission's final report is expected in October 1996.

In the final report (SOU 1995:56) from the Commission on Women's Labour Market (*Utredningen om kvinnors arbetsmarknad*), the positions of men and women in the labour market in the 1990s are analysed. The focus of the study is the consequences of the recession in the 1990s on employment from a gender perspective and on the division of the labour market with respect to gender. The cuts in the public sector will have negative repercussions on female employment since more than half of employed women work there, while employment in a number of sectors dominated by men is expected to grow.

There are indications that women's connections to the labour market are weakening through an increased degree of part-time unemployment and a growing supply of temporary jobs. Statistics presented in this report indicate that although a low level of education seriously lowers the chances for a person to find a job in the 1990s, women with a low level of education are at an even greater disadvantage than men with low education.

There are also indications that women are at disadvantage with respect to active labour market policy measures. On average, men receive more expensive types of labour market training and women are underrepresented in measures that are directly aimed at working life, such as recruitment grants and start-up grants. The Commission remarks that there is no analysis available on active labour market policy measures from a gender perspective and accordingly suggests that such an analysis should be made. As noted previously, the Government supports this initiative and has asked the National Audit Bureau to review active labour market policy measures from a gender perspective.

In its final report (SOU 1996:55), the Committee on Immigrant Policy (*Invandrarpolitiska kommittén*) analyses the situation of immigrants in the labour market and makes proposals for improvements. The Committee states that the present labour market situation for foreign born people is disastrous. According to the Committee, it is evident that the present policy has failed to effectively introduce immigrants into the Swedish labour market. The situation is described as inhuman, unjust and not economically sustainable.

Whilst the Committee agrees on the overall situation, there is some disagreement as to appropriate improvements. The majority of Committee members suggest that non-wage costs should be subsidised in certain sectors, the public care and environmental sectors and in the private household sector. However, some members are opposed to this. The bottom line in these suggestions thus concerns a permanent exception from the principle of equal taxation. The Committee also presents a large number of more traditional measures, involving integration of newly arrived immigrants (mostly refugees) into the labour market.

In the partial report (SOU 1996:27) from the Commission for the Promotion of Adult Education and Training (*Kommittén för ett nationellt kunskapslyft för vuxna*), the focus is on the goals for a national competence boost for adults as a part of a strategy for life-long learning. In the context of life-long learning, the Commission emphasises the need for strengthening the 'infrastructure' as regards information on available courses, etc. and their possible entrance requirements and how studies can be

financed. The Commission suggests that a person should have the right to adult education equivalent to two years of upper secondary school. The question of financing adult education will be treated in the next partial report in October 1996.

The Working Hours Commission (*Arbetstidskommittén*) was appointed by the Government in January 1995. The Commission will evaluate how a balance is to be struck between firms' increased need for working hours flexibility and employees' need for security and influence over the length and location of work and the effects of more flexible working hours on the functioning of the labour market, and on health, family life and equality between the sexes. In addition, the Commission will study whether there is any correlation between shorter working hours and the possibility for more people to obtain work.

The basis has been that the social partners should themselves reach agreements on these matters by collective agreements, but it will probably also be necessary to make some changes in legislation. In the *Employment Bills*, the Government announced that after the Working Hours Commission has presented its findings in autumn 1996, the Government will introduce a Bill in the Swedish Parliament, the Riksdag on these matters.

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APPENDIX

Table A1. Population 1980-1995 (16-64 years), by age group (thousands)

Year	Total Population	16-24	25-34	35-44	45-54	55-64
1980	5,211	1,001	1,251	1,081	896	982
1981	5,232	1,016	1,226	1,127	887	976
1982	5,249	1,027	1,202	1,171	882	968
1983	5,269	1,040	1,178	1,208	883	959
1984	5,287	1,049	1,158	1,238	889	953
1985	5,287	1,055	1,143	1,262	898	930
1986	5,285	1,059	1,135	1,280	905	907
1987	5,299	1,065	1,134	1,285	927	888
1988	5,323	1,069	1,138	1,281	963	872
1989	5,356	1,068	1,156	1,267	1,009	856
1990	5,397	1,061	1,183	1,249	1,058	845
1991	5,425	1,048	1,201	1,230	1,106	839
1992	5,447	1,027	1,220	1,212	1,151	836
1993	5,461	1,009	1,231	1,195	1,189	838
1994	5,496	999	1,244	1,186	1,221	847
1995	5,523	990	1,250	1,179	1,247	859

Sources: Issues of the Labour Force Survey 1980-1995, Statistics Sweden, Stockholm.

Table A2. Labour Force 1980-1995 (16-64 years), by age group (thousands)

Year	Total Labour Force	16-24	25-34	35-44	45-54	55-64
1980	4,247	710	1,103	982	796	656
1981	4,264	689	1,091	1,034	791	659
1982	4,288	685	1,075	1,076	792	659
1983	4,311	680	1,062	1,116	799	654
1984	4,332	679	1,048	1,150	809	645
1985	4,367	696	1,038	1,182	821	629
1986	4,385	692	1,037	1,205	832	619
1986*	4,388	716	1,032	1,203	826	609
1987	4,410	711	1,031	1,201	854	613
1988	4,452	725	1,036	1,206	882	604
1989	4,508	739	1,054	1,196	928	591
1990	4,560	727	1,075	1,183	980	596
1991	4,530	680	1,078	1,156	1,022	594
1992	4,442	604	1,075	1,132	1,052	579
1993	4,320	525	1,060	1,096	1,079	561
1994	4,268	496	1,044	1,068	1,099	560
1995	4,319	495	1,064	1,060	1,126	574

Sources: Issues of the Labour Force Survey 1980-1995, Statistics Sweden, Stockholm.

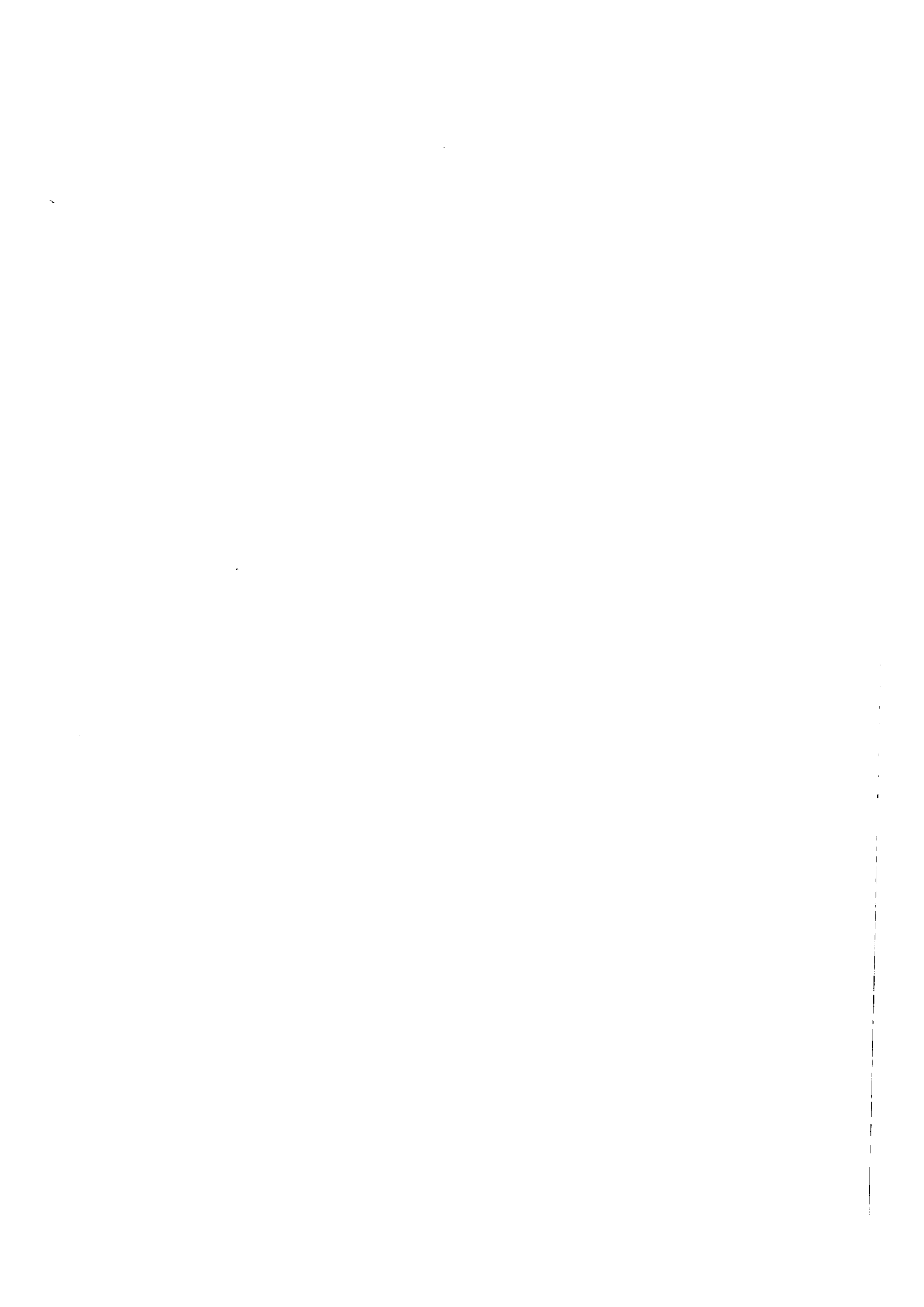
Note: The figures referring to 1986* - 1992 are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993. The figures referring to 1986 and earlier are not revised.

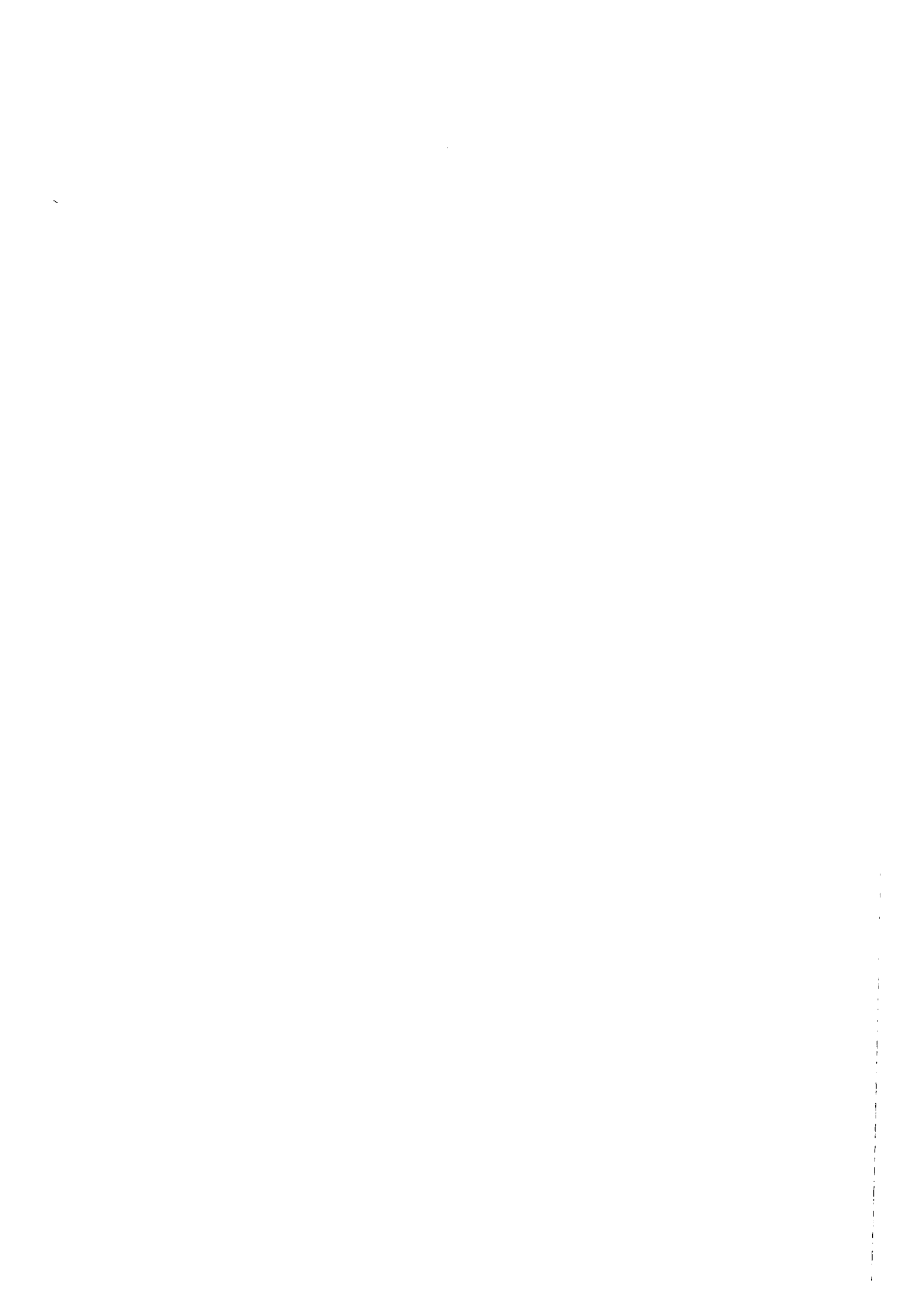
Table A3. Population and Labour Force 1980-1995 (16-64 years), by gender (thousands)

Year	Total Population	Men	Women	Total Labour Force	Men	Women
1980	5,211	2,636	2,575	4,247	2,312	1,934
1981	5,232	2,646	2,586	4,264	2,291	1,973
1982	5,249	2,654	2,595	4,288	2,291	1,997
1983	5,269	2,664	2,605	4,311	2,291	2,020
1984	5,287	2,674	2,614	4,332	2,288	2,044
1985	5,287	2,675	2,612	4,367	2,299	2,068
1986	5,285	2,675	2,610	4,385	2,298	2,087
1986*	5,285	2,675	2,610	4,388	2,284	2,103
1987	5,299	2,684	2,616	4,410	2,292	2,117
1988	5,323	2,697	2,626	4,452	2,312	2,141
1989	5,356	2,717	2,640	4,508	2,346	2,163
1990	5,397	2,739	2,658	4,560	2,372	2,188
1991	5,425	2,754	2,671	4,530	2,356	2,174
1992	5,447	2,766	2,681	4,442	2,309	2,134
1993	5,461	2,774	2,688	4,320	2,245	2,076
1994	5,496	2,792	2,705	4,268	2,219	2,049
1995	5,523	2,805	2,718	4,319	2,251	2,068

Sources: Issues of the Labour Force Survey 1980-1995, Statistics Sweden, Stockholm.

Note: The figures referring to 1986* - 1992 are revised to be comparable to the changes in definitions and in methodology implemented in the Labour Force Surveys in 1987 and 1993. The figures referring to 1986 and earlier are not revised.





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