School to Work Transition in Sweden

Oskar Nordström Skans
IFAU–The Institute for Labour Market Policy Evaluation

1. Introduction

The questions asked in the Swedish Labour Force Surveys changed during 2005 in order to harmonize the statistics with Eurostat guidelines and make the numbers comparable with those for other countries. This resulted in youth unemployment numbers in excess of 22 percent as published by OECD in 2005. This adjustment – although in essence a statistical artefact – came in a period during which youth unemployment was increasing and the result was a growing awareness of youth unemployment problems in Sweden. Given Sweden's history as a low unemployment country, such high unemployment numbers have lead to an intense debate on how to reduce the youth unemployment and how current policies can be adjusted to this end.

Most commentators also agree that the debate on unemployment, and in particular youth unemployment, in a period with strong GDP growth was the main cause of the change of political majority in the late 2006 which ended a 12 year period of social democratic government. Due to the change of government a wide array of political reforms associated with the transition between school and employment are being discussed – reforms touching on both the schooling system and various labour market policies.

This short text outlines and discusses the main features of the current Swedish system affecting the transition into work for young people who do not proceed to higher education in Sweden. The text is outlined as follows. First, we describe in some detail the Swedish education system. Second, we describe institutions and the general state of the Swedish labour market. Third, we describe labour market policies for unemployed youths. In each section we focus on the elements affecting the transition into work for young people in Sweden, discuss potential problems with the current Swedish system and highlight some of the institutional changes that have been announced. We end the text with a summary.

2. Education

2.1. Overview

This section briefly discusses the Swedish education system such as it has been designed since the mid 1990s. The focus is on education from the start of compulsory education at age 7 to the end of upper secondary education at age 19, although there are large scale publicly financed educational components both before and after this age interval. In order to understand some of the quirks and challenges facing the upper secondary education it is also necessary to briefly describe the system of tertiary education.

Although the great mass of children starts participating in various educational pre-school activities earlier formal compulsory schooling starts at age 7.[1] Schooling is compulsory for 9 years, and thus ends at age 16. Exemptions from this timeline are few – and mainly refer to

immigrants arriving to Sweden relatively late in their schooling age. The curriculum at this stage is quite standardised and focus on general "academic" skills. The system is thus generally inclusive and there is no tracking and very little is offered in the way of professional training at this stage.

After completing compulsory schooling, roughly 98 percent of the students proceed to a 3 year long upper-secondary school. Starting upper secondary education means choosing between a wide set of different educational tracks, or "programs". Currently there are 17 national programs and numerous regional special programs. There are two broad types of programs – academic and vocational – each of which caters for about half of the student body.

The vocational programs in most cases provide fairly specific professions – there are e.g. programs for construction workers, electricians, hair dressers and health care personnel. Some are however less clearly oriented towards the labour market such as the Arts program and the Media program. The gender segregation is extensive between the various vocational programs.

The other main category of programs – the academic programs – are mainly targeted at students who wish to progress to higher education. These programs are naturally broader but have some specializations on fields such as social science, science or engineering.

After a reform during the mid-1990s – students of all programs, including the vocational ones, are required to take a general set of core courses in Swedish, Mathematics, English, Science, Religion, Social science, Arts, and Physical education. Passing these courses is required in order to have a complete diploma – and doing so will grant eligibility to apply for higher education.

When applying for upper secondary education, students apply directly to a program (at a certain school) before starting higher education. Transitions between upper secondary education and higher education are frequent but slow. Between 40 and 50 percent of a cohort start some form of higher education before age 25, but less than half go directly or within one year after high school graduation (see Holmlund et al, 2006 for a discussion). It should also be noted that some of these students only attend single courses and that graduation rates thus are much lower. Women are slightly overrepresented among students in higher education.

2.2. Organisation and Financing

Education in Sweden is tuition free at all levels, including university. In addition, study allowances are paid to all students, irrespective of e.g. parental income. At upper secondary education all students are granted a tax-free study allowance currently (2007) corresponding to 1,100 € per annum. Allowances can be withheld if the student is excessively absent, although practices vary substantially between schools. Students participating in higher education are granted a tax-free allowance and a subsidised loan during six years of study (2,700 € and 5,200 € per annum respectively). These allowances are reduced if the own labour income is too high or the study performance is inadequate.

General educational plans and regulations are set, and monitored, at a national level. Compulsory education and upper secondary education are however provided for by the 290 municipalities – the average population is approximately 30,000 per municipality, but the size varies substantially. There is an increasing amount of school competition in Sweden. Private non-profit organisations have the right to start tuition free schools with public funding. Students are therefore allowed to participate in private compulsory and upper secondary schools within the municipalities. They also have the right to participate in education outside the municipality if a corresponding education is not provided within. In both these cases the

[1] More precisely, during the calendar year in which the child will turn 7. The ages we refer to throughout this section is always the age at the end of the year.

municipality of origin is required to provide financing. This means that schools compete for students, sometimes by providing non-standard programs with features that are attractive to the students (e.g. with an international component, with good opportunities of practicing sports or music, with a specialization in media, web design, etc).[2]

Higher education, in the form of universities or colleges, is standardized on a national level. Few universities are private and all are under the supervision of a national agency. Applications to most higher education are handled simultaneously by a national board. Recent evidence shows that, in contrast to many other countries, post-college wages do not differ depending on which school the students graduate from conditional on the chosen program, grades and parental background (Eliasson, 2006). The wages do however vary substantially between graduates from different types of programs so grades may be important for students wishing to participate in a particular program.

2.3. Choosing Field of Education

When students apply to upper secondary education they compete against each other for slots in schools and/or programs within these schools. The selection criteria are mainly based on location (e.g. allocation to the closest school within the municipality) and/or compulsory school grades. The municipalities may determine the exact rules and thus the relative importance of these two components. The overall governing principle is however that a student should be given the opportunity to participate in the *program of preference* if at all possible. This objective, together with the fact that schools compete for students, make student preferences a key element in determining the final educational mix.

Given that student choices are important for the final educational composition of the graduates entering the labour market, it is important that the choices are made on rational grounds. Although survey evidence suggests that students consider the expected labour market outcome is an important determinant of their choices, and the existence of a growing number of publications describing the labour market success of past graduates, it is not obvious that there is a strong connection between choices and actual performance. The system also gives career planners a crucial role of suggesting routes with a reasonable chance of success. Little is known how well they tackle the difficult task of weighing individual preferences against expected labour market success.

Åslund et al (2006) study the relationship between higher education, labour market entry and the students' selection of university program. They find a strong correlation over time in the types of education from which students succeed with their labour market entry. Despite this, they find no correlation between the rate of success and the entry grades – suggesting that student educational choices (for higher education at least) is to a great extent *not* governed by expected labour market outcomes.

2.4. Second Chances

As noted above, nearly all compulsory-school graduates start upper secondary education, even though it is voluntary. The "individual program" at upper secondary school explains part of this. This program caters for those approximately 10 percent of compulsory school graduates who do not have complete grades in the core subjects (Swedish, English and Math) as well as some students not admitted to any other program. These students start upper secondary school on the basis of an individually designed curriculum with the first goal of

[2] In total 30 percent of students were in programs other than the national programs in 2005/2006 (Skolverket, 2006). 13 percent were in private schools. 10 percent studied in special programs, i.e. in municipality provided programs other than the national programs, and the remaining 7 percent were in "individual programs" (see Section 2.4).

completing the compulsory school curriculum and then transit into completing some of the general programs of the upper secondary education. A minority of these students actually manage to complete upper secondary education before age 20.

Table 1. Distribution of Achieved Education at Age 20 and 23 for Cohort Born in 1980

Age	Statistic	Compulsory [A]	Upper secondary		Tertiary	
			Incomplete grades [B]	Complete grades [C]	< 3 years	≥ 3 years
20	Fraction (all)	0.157	0.104	0.655	0.083	0.000
	Age of completion	16.16	19.01	19.14	19.98	-
	Fraction (males)	0.174	0.120	0.646	0.059	0.000
	Fraction (females)	0.140	0.087	0.664	0.109	0.000
23	Fraction (all)	0.111	0.132	0.405	0.260	0.093
	Age of completion	16.13	19.66	19.23	22.71	22.87
	Fraction (males)	0.123	0.152	0.430	0.229	0.067
	Fraction (females)	0.099	0.111	0.379	0.292	0.119

Source: Own calculation on population wide register data of completed education from the IFAU data base.
Note: Age of completion is the age of the highest achieved education which may include incomplete studies (especially in the first two columns). 3.6 (3.3) percent are not classified at age 20 (23) – these are dropped. 1.2 (6.6) percent miss information on age at highest achieved education at age 20 (23). [A]Including incomplete post compulsory education if shorter than half a year. [B]At least half a year post compulsory education, with incomplete grades or shorter than three years. [C]Three years long post compulsory education with complete grades.

Students who are below age 20 and who have not completed their upper secondary education are considered as drop outs and it is clear all interventions targeted at this group are intended to encourage them to go back to school. Financially they are under the responsibility of their parents although they are not considered as minors after age 18, but the municipalities have a responsibility to follow these individuals and to encourage them to finish their education.

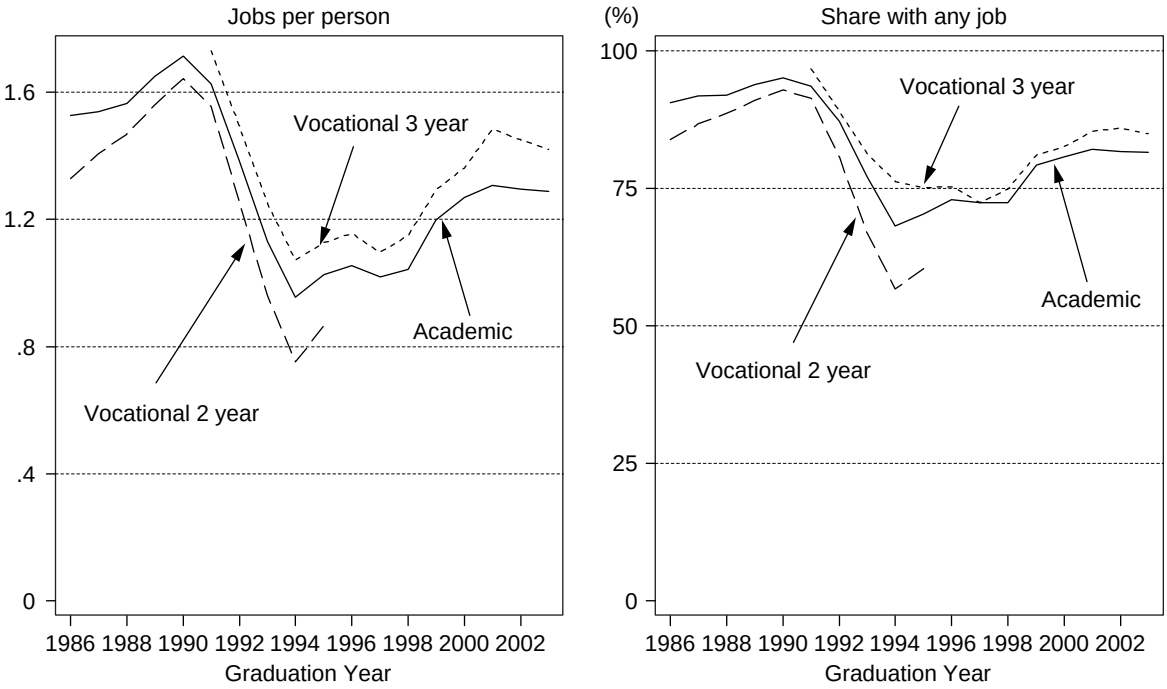
In total, approximately one third of a cohort does not finish upper secondary school with complete grades within the normal time frame (i.e. at age 19) after an additional year the number drops to one fourth. Students who fail their studies and are above age 20 are given the opportunity to complete their education within the extensive “adult education framework”, initially set up as a system for life long learning. As in all other parts of the Swedish education system, participation is tuition free and study allowances are paid to the students.

The adult education system has an unintended effect in terms of increasing dropout rates. When applying for higher education, students apply not only for the school (university) but also for the type of education. Grades matter for admission in particular for those who wish to participate in popular types of educations, such as medical doctors programs, or journalist programs. Grades are “absolute” in the sense that they are set relative to a “target” in terms of knowledge. Students are allowed to improve their grades by retaking the same subjects within the adult education framework after completing upper secondary education. However, there is rationing of slots within this system and those who fail their upper secondary education are given priority. Thus, students with high ambitions who are unhappy with their performance (or more precisely, their expected grades) may purposely fail to complete upper secondary education for strategic reasons.

2.5. Work Experience While in School

All vocational programs should contain a minimum of 15 weeks of workplace practice. The practice should be part of a broader pedagogical curriculum. Evaluation shows, however, that the practice component in reality is much smaller in many cases (DS, 2000). Nearly half of the students are not given the required *minimum* amount of practice. Criticisms have also been raised regarding the pedagogical content of the practice component. This lack of compliance with formal rules must be understood in the context of the decentralized schooling system, where centrally determined objectives are to be implemented by municipalities and schools acting with discretion within their own budgets.

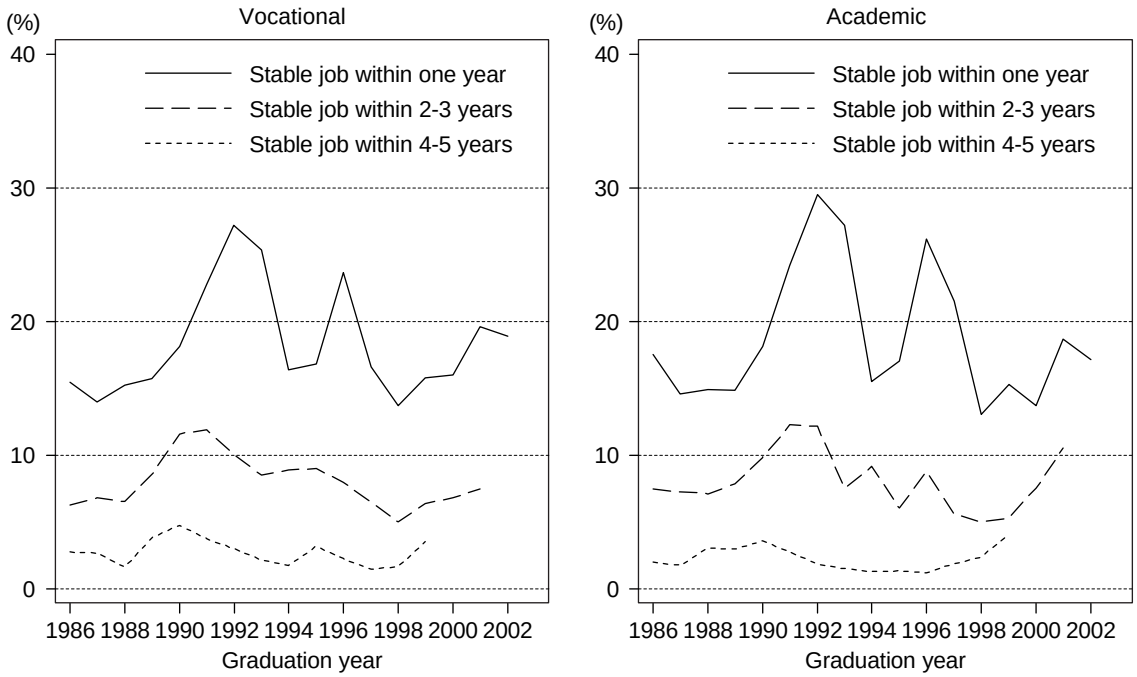
Figure 1. Jobs per Graduate the Year before Graduation from Upper Secondary School



Source: Åslund et al (2006).
Note: A job is defined as receiving payment from a specific employer. Vocational programs were prolonged from 2 to 3 years during the first half of the 1990s. The time pattern is highly correlated with unemployment (see Figure 4 below for the matching unemployment statistics).

Given the amount of evidence suggesting the importance of contacts and networks in the job-finding process – it is likely that the work practice is important. An alternative way of creating a network of references for students is through summer jobs and other casual jobs held while in school. Although it varies with quite dramatically with the business cycle, roughly 80 percent of graduates from upper secondary school have some employment in the calendar year proceeding graduation. The differences between vocational and academic programs are small. On average, the students receive wages from 1.3 different employers per individual the year before graduation. The importance of these jobs is illustrated by the fact that 20 percent of those who have a successful labour market entry directly after upper secondary school work at the same establishment where they held a summer job or a casual job during their last school year.

Figure 2. Fraction of Those Finding a "Stable Job" within Various Time Frames Who Worked within that Establishment the Year before Graduation from Upper Secondary School



Source: Åslund et al (2006).
Note: A "stable job" is defined as earning at least half the median income of 45 year olds (approx. 7 monthly minimum wages) during a calendar year.

2.6. Discussion

The Swedish upper secondary education system is ambitious in many dimensions. It requires that all students pass an ambitious set of core courses at a level which is sufficient for entry into higher education. Furthermore, it is a clear ambition that all students in a cohort should complete this curriculum. At the same time, the educational system should provide vocational training for students in various fields such as construction work, auto mechanics and health care for those that choose these educational tracks.

To combine these goals, an ambitious system of second chances is set up. Ten percent of students fail their core subjects already during compulsory schooling – these students are allowed to enter upper secondary school on the premise of an "individual" program which allows them to complete their compulsory school education and then transit into a normal upper secondary school program which about 38 percent of the students do within one year (Skolverket, 2006).

Many students drop out of upper secondary school – or finish their education with incomplete grades. These drop-outs are encouraged to go back to school – and those with incomplete grades are encouraged to complete their education, either within the normal schooling system or within a special adult education framework.

Although it is clear that the high ambition, and the extensive, second chance system have some good merits, there are problems as well. Despite the many second chances, 25 percent of a cohort do not finish their upper secondary education despite the fact that the process takes up substantial amounts of time in many cases. Immigrants are strongly overrepresented among those failing – but a substantial share of students with two native born parents also fail (see the Appendix). It is not clear that the system provides the optimal time-use for vulnerable groups. The ambitious curriculum places a hurdle which may be unnecessarily high for

groups which mainly are interested in a learning a profession and progressing into the labour market. The system does not provide any alternative "fast track" to work for those with poor school performance or little interest in formal schooling. The benefits of the academic curriculum also appear small for this group since only a minor fraction of graduates from the vocational programs transit to higher education.

The system of second chances can be misused. As with all forms of insurances, there is a risk of poor performance simply because of an expected future bail-out. As a further complication, ambitious students may purposely fail their courses in order to qualify for adult education and a second try where they may expect to perform better. This places a strain on educational resources and a delay in the labour market entry of some groups.

The change of government in the fall of 2006 suggests that some reforms are to be expected. It has been announced that a wider array of programs will be organised – some of which will be placed on site at workplaces to a larger extent. The grading system and admission system to higher education will probably be reformed – it is not yet clear how, however.

The labour market connection of upper secondary education could probably be strengthened in many dimensions. The workplace practice is by most observers considered to be a very important part of the vocational programs – yet it does not materialize as required. Summer jobs (or other casual jobs held while in school) are frequent and may fill the gap left from lack of workplace practice. Data suggest that they do play a role as a bridge into regular employment. There are however reasons not to rely on these jobs as the sole bridge between school and work. First of all, all casual jobs are extremely sensitive to the business cycle – suggesting that the importance of work practice arrangements increases in bad times. Second, casual jobs are often distributed through social contacts, probably even more so than regular jobs. This means that students who lack contacts either because they have made a different career choice than their parents, or because the parents are unemployed may be left without jobs, or at least without jobs which are related to the field of education. As shown in Table 2 below, students with unemployed parents have a significantly lower probability of working while in school.

As a policy for introducing children to working life, most Swedish municipalities provide a few weeks of low paid employment during the summer months for upper secondary school students unable to find other jobs. The jobs are often rationed. Wang et al (2006) study these jobs in a municipality were the jobs allocated through a lottery. They find no significant long run difference in outcomes between those who received a job and those that did not. Even though the statistical precision was quite low, this seems to suggest that the short and often seasonally oriented summer jobs provided by the municipalities do not help students to enter the labour market.

The Swedish school system encourages students to choose education based on their preferences and the municipalities are expected to cater for these preferences as much as possible. Since schools in reality compete for students, this creates an educational mix that to a large extent is a function of student choices and preferences. The resulting mix of specializations is therefore not directly related to the needs of the labour market. In addition, some observers (e.g. LO, 2006) claim that expensive programs (such as many of the vocational programs) are under-dimensioned. Programs with an appeal to students' interests but little labour market orientation, such as the media program, tend to be over-dimensioned relative to the needs of the market. An important challenge is thus to find ways of properly dimensioning the educational system so as to combine students' interests and labour demand in world of free school choice and between-school competition for students. The challenge of combining student choices with labour market outcomes have inspired many commentators (e.g. Åslund et al, 2006) to suggest that better statistics regarding the labour market outcomes associated with various educational tracks should be made available for students in the

process of choosing education. Improvements are in the process, but the key question of whether this will affect the actual choices of the students still remains however.

Table 2. Probability of Working during the Year before Graduation depending on Parental Employment

Parental employment:	All students	Male students	Female students	Share of sample (both gender)
Both parents employed	Ref	Ref	Ref	0.789
Father but not mother employed	-0.045 (0.005)**	-0.048 (0.008)**	-0.043 (0.006)**	0.096
Mother but not father employed	-0.028 (0.005)**	-0.048 (0.009)**	-0.010 (0.005)*	0.082
No parent employed	-0.097 (0.009)**	-0.081 (0.015)**	-0.108 (0.012)**	0.032
Constant	0.911 (0.001)**	0.876 (0.002)**	0.945 (0.002)**	
N	61,447	29,887	31,560	

Note: Estimates from linear probability model. Dependent variable is the probability of having a job the year before graduation for students graduating with complete grades at age 19. Estimates control for the interaction of program and municipality. Standard errors are within parentheses. **(*)estimates are statistically significant from zero (both parents employed) at the 5 (10) % level.

3. The Swedish Labour Market[3]

3.1. Unions and Wages

A high degree of union membership is an integral part of what has been referred to as the Swedish Model. Indeed, labour legislation concerning employment protection and worker co-determination is based on the presumption that the overwhelming majority of the workers are union members. Union density in Sweden has hovered above or around 80 percent of the number of employees over the past couple of decades. The coverage of collective agreements is even higher as the collective agreements typically are extended to non-union workers. Sweden has not experienced the trend decline of union density visible in many countries.

Post-war wage determination in Sweden has frequently been associated with centralized wage bargaining as well as so-called solidarity wage policy. Nationwide coordination of wage negotiations was implemented from the mid-1950s and continued for almost three decades. The guiding principle for the wage policy was “equal pay for equal work”. In theory, the policy recognized the need for wage differentials among workers so as to reflect differences in qualifications. In practice, there was also a clear egalitarian ambition amongst the labour movement. The centralized wage negotiations came under increasing pressure during the late 1970s when some employer organizations argued that the central frame agreements left too little room for flexibility at the local and industry level. Wage negotiations after 1983 have mainly taken place at the industry level, although various coordinating institutions have been set in place during the 1990s in order to avoid excessive wage pressure.

[3] This section draws heavily on Skans et al (2006).

The Swedish system with union bargaining and relative wage compression may create problems for the outsiders who are in the process of entering the labour market. There are no legislated minimum wages but collective agreements stipulate minimum wages for nearly all workers. According to Skedinger (2005), Swedish minimum wages as determined by the union contracts are relatively high by international standards which may pose a problem for entering groups.

There exist some formal trainee systems for introducing and certifying graduates from upper secondary school into the labour market, but since these systems are to be determined through collective agreements between the labour market parties there is a large variation between industries. Surveys (e.g. LO, 2006) clearly show that trainee agreements mainly are present in the male dominated industrially oriented professions of the private sector, most notably for construction workers and electricians. These are areas where the unions traditionally are considered to be strong. Notably, these areas where the transition between schools and work appear to be relatively swift, suggesting that the trainee arrangements are helpful.

There is much less organised school to work transition arrangements for the female dominated professions catering for the service industry, often in the public sector. Another problem is the lack of school-to-work bridges for students graduating from the academic programs. The students from these programs who fail to (or choose not to) enter higher education and are not prepared for the labour market in terms of an acquired profession have no formal institutions catering for them since no specific union is acting in their interest.

Even though the trainee system in many ways appears to provide a successful way of introducing graduates to the labour market in the sectors where it is in place, there is a fear that those who fail to find a trainee spot after graduating, or who have incomplete grades and thus are disqualified, will have serious problems of entering the labour market. The fact that unions are involved in the process also raises fears that the labour movement are given a tool for limiting the supply of labour into the sector.

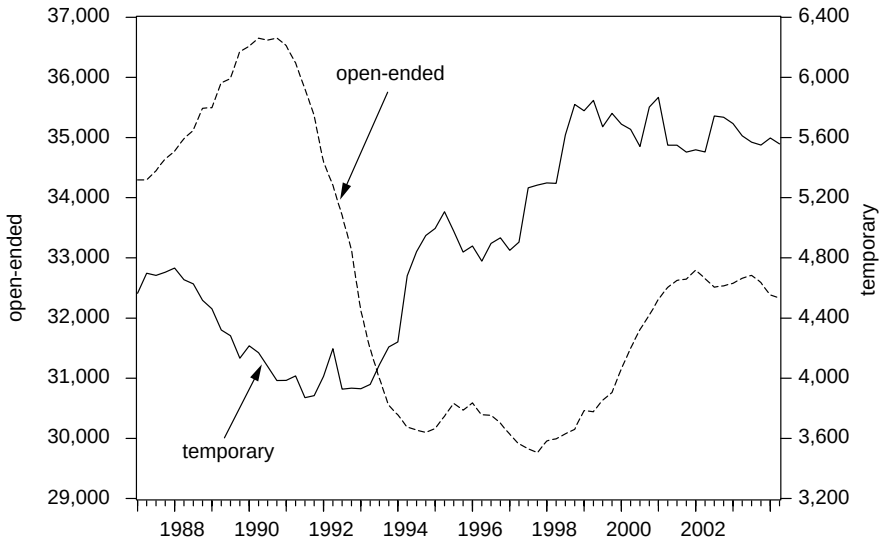
3.2. Employment Protection

In terms of employment protection, Sweden ranks around European average according to most observers (OECD, 1999; 2004). Workers with 12 months tenure are to be given priority for new jobs. Those being employed for three years during a five year period are to be considered as hired on an open-ended contract. Since the beginning of the 1990s there has been a large increase in the use of temporary contracts – especially among younger workers. This is probably a function both of some legislative changes and a changing macroeconomic environment – see Holmlund and Storrie (2002) for a discussion.

There is an ongoing debate in Sweden, as in many other countries, whether the employment protection should be made more or less strict in order to help young workers enter the labour market. Regulations such as the 12 month limit for receiving priority for new jobs are designed to help workers in the process of entering the labour market. It is however not clear that this is the actual outcome. Employers may choose to restrict the contract length to 11 months and be reluctant to rehire temporary workers until after a period sufficiently long so that they are not covered by such legislation.

It is likely that less strict employment protection will give workers with no previous work experience more chances of entering the labour market – but on the other hand it will become more likely that they are laid off again. What little empirical evidence exist (e.g. Larsson et al, 2005) suggest that temporary contracts are beneficial for those taking up the contracts – but the overall effects are far from clear. Although the debate continues, changes in the employment protection legislation is to be expected in the recent future.

Figure 3. Wage and Salary Employment (100s) by Type of Contract



Source: *Labor force surveys*, Statistics Sweden.
Note: seasonally adjusted quarterly data 1987Q1 – 2004Q2.

3.3. Unemployment

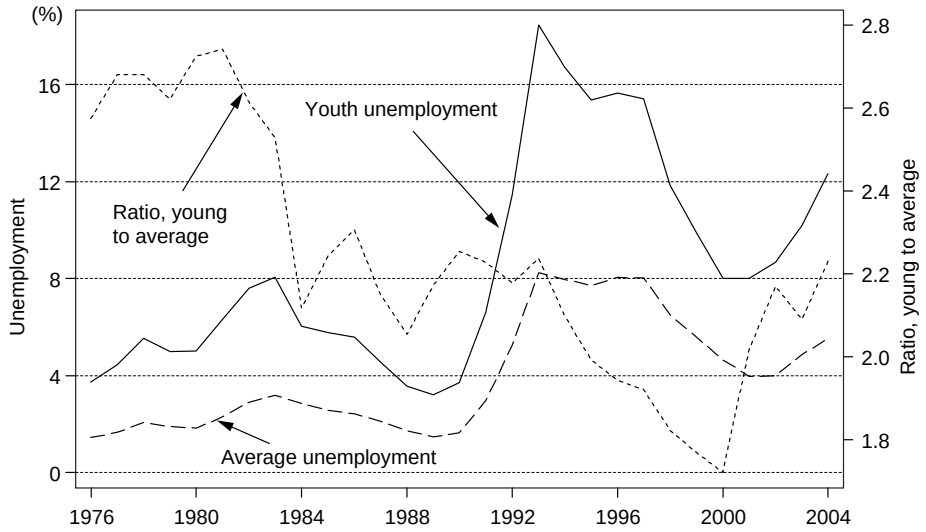
During the 1980s, Swedish labour market performance was widely appreciated as a remarkable success story. Whereas unemployment in Western Europe climbed to double-digit figures, the Swedish unemployment rate remained exceptionally low by international standards. The average unemployment rate during the 1980s was around 2 percent and by the end of the decade it had fallen to 1.5 percent. Employment-to-population rates were also exceptionally high by international standards. In 1990, total employment had risen to 83 percent of the working age population, whereas the average European figure was 61 percent and the OECD average 65 percent.

In the early 1990s, the picture of outstanding Swedish labour market performance changed dramatically. Between 1990 and 1993, unemployment increased from 1.6 percent to 8.2 percent and total employment declined to 73 percent of working age population. The level of GDP fell from peak to trough by 6 percent over a three year period. For five successive years in the mid-1990s, official unemployment was stuck at around 8 percent whereas extended measures of unemployment which included participants in various labour market programs reached double-digit figures. Youth unemployment, which for natural reasons always is higher than average unemployment, remained at roughly twice that of the average population which means that the cohorts entering the labour market in the mid 1990s faced severe business cycle conditions.

Although the prospects for a sustained labour market improvement appeared remote in the mid-1990s, a strong recovery was in fact around the corner. From 1997 and onwards, employment exhibited a marked increase and unemployment fell rapidly. By the end of 2000, unemployment had reached 4 percent of the labour force and it remained fairly constant at this level during 2001 and 2002. Between 2002 and 2005 – unemployment rose again – although the recession was not as severe at this occasion, it is clear that this period meant a significant worsening of the labour market status of young workers relative to older workers.

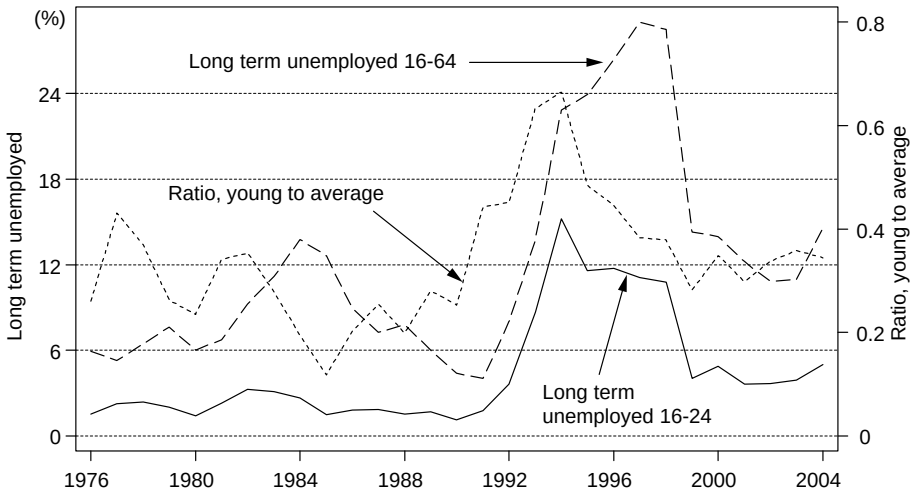
Since 2005 the labour market has slowly recovered again. A change in the definitions of the labour force survey in the spring of 2005 does however make it difficult to compare the most current numbers to the historical ones. The change of definitions towards international

Figure 4. Unemployment Rates



Source: *Labour force surveys*, Statistics Sweden.

Figure 5. Long Term Unemployment



Source: *Labour force surveys*, Statistics Sweden.

standards has however raised awareness of the fact that youth unemployment in Sweden is a larger problem relative to the rest of the world than was previously known. According to OECD the Swedish youth unemployment was 22.3 percent in 2005.

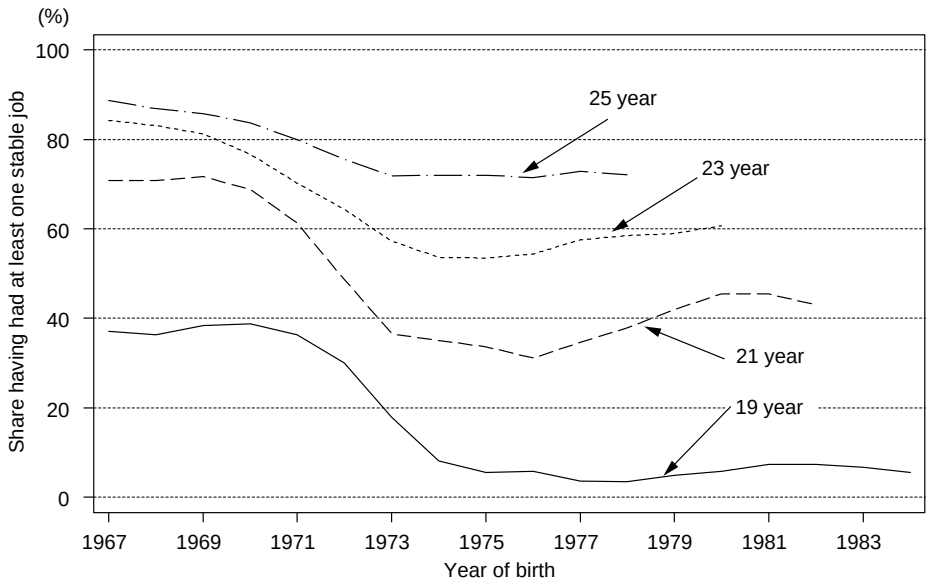
When studying unemployment for young workers it is important to remember that this mainly is an *inflow* problem. Young workers become unemployed much more often than older unemployed. Once they become unemployed, young workers do on average find jobs faster than the older unemployed. This is in part a reflection of the fact that youth unemployment is more wide spread – in contrast to the case for older workers it is not only those with severe problems that become unemployed. As an illustration, Figure 5 shows that the share of long term unemployed among young workers is much lower than among all unemployed workers.

3.4. Labour Market Entry

As visible in the unemployment statistics, there is a great variation over time in the youth unemployment rate. But unemployment statistics only measures the share of young workers who look for jobs but do not find any. It does not directly relate to the first entry into the labour market. In order to calculate the time it takes for young people to actually find a job Åslund et al (2006) calculated the fraction of workers within a cohort who have found a first relatively stable job at different ages. The definition of a stable job is relatively arbitrary (approximately 7 minimum wages during a year)[4] but stable over time. The numbers show a significant downturn when the recession hit in the early 1990s and some recovery at least around age 21 in the latter years.

Much of the permanent delay is due to prolonged education – this is especially true for the numbers at age 19 since vocational programs were prolonged by one year during the recession. Calculating numbers for the time to job after completed education does however show a similar, although not as strong pattern, suggesting that labour market entry has indeed become more difficult over time (Åslund et al, 2006).

Figure 6. Share Who Had at Least One "Stable Job" before or at Age 19, 21, 23 and 25



Source: Åslund et al (2006).
Note: "Stable jobs" are defined as earning at least half median income of 45 year old (approx. 7 monthly minimum wages) during a calendar year.

[4] The precise definition is earning at least half median income of 45 year old but it corresponds to approximately 7 monthly minimum wages in all years.

4. Labour Market Policies for Unemployed Youths

Sweden has traditionally been renowned for its system of extensive active labour market policies. Such policies are very much in effect also for the young. This system is however currently under rapid reconstruction following the change of government in late 2006. The description below however describes the current system, but it should be kept in mind many aspects are likely to change already during 2007.

As a general rule, people of all ages who are looking for jobs register at the local office of the nation wide *Public Employment Service* (PES) funded by the central government. The PES offers computerized "matching" services, with a database of job vacancies throughout Sweden. All employers are required to report their vacancies to the PES – in reality the database is expected to cover one third of all actual vacancies. Nevertheless this provides a great recource for job applicants. Registration is also a requirement for anyone wishing to receive assistance from one of the benefit system available for job unemployed seekers. In addition to the matching services, the PES also provide various job search assistance and various forms of "active" labour market programs in the form of Labour Market Training, Work Practice, Employment Subsidies or the like.

There are various special arrangements depending on age which separate how the PES works with the young unemployed. The two main thresholds are at age 20 and at age 24. Unemployed workers aged below 20 (note that the normal graduation is in June of the year the student will turn 19) are with few exceptions not allowed to participate in the normal labour market programs provided by the PES. Instead, they are referred to a program administrated by the municipalities. This referral typically comes much faster in an unemployment spell (around day 50 into an unemployment spell) than what is customary for older unemployed workers. The municipalities have a lot of discretion when treating the young workers involved in this program and in practice we have little knowledge of the average contents of the program. Available survey evidence suggest that they involve combinations of the same elements provided by the PES programs, i.e. work practice, job search assistance, computer training, etc. The variation between municipalities is however likely to be great.

For workers aged 20-24 the situation is slightly different. This group can be referred to a program run by the municipalities, much like the program for those under 20. But in contrast to the younger age group they may also participate in normal PES administrated programs. Workers aged 20-24 also differs from the older unemployed in two other important aspects. First, they are placed in programs much earlier – both data and policy documents suggest that program placement takes place after around 100 days of unemployment. Second, unemployment rates and PES performance for the under 24 is monitored separately, and the PES are thereby encouraged to give specific attention to this age group. In reality this means that larger PES offices have special case workers who only focus on this age group and that case workers in general meet clients aged below 24 much more often than e.g. unemployed workers aged 25 to 29.

There are no municipality run programs for those over age 24.[5] The involvement of the municipalities for young unemployed workers is a function of the fact that the municipalities cater for upper secondary education and "adult education". They are also responsible for paying out social assistance – a means tested grant which is the only form of compensation available for unemployed with no previous work experience, where the young unemployed are highly overrepresented.[6] Furthermore, municipalities also have a legal responsibility to be

[5] In fact this is not exactly true – unemployed social assistance (which is financed by municipalities) recipients are by some municipalities required to participate in special programs which they provide. There is however, extremely little systematic knowledge about these programs.

[6] Unemployment insurance paid to unemployed with previous work experience is administrated and paid nationally.

informed of, and provide solutions for, those under the age of 20 who have not completed post secondary education and are out of work. In practice, the municipalities appear to differ a lot in the extent to which they actually fulfil this responsibility.

What are the effects of these various arrangements? The evaluations of Forslund and Skans (2006a and 2006b) show the following. Firstly – by studying individuals who have similar characteristics and who are very close in age but show up in different age categories due to small age differences it is possible to derive the effects of the various age limits. The results show that transitions into jobs during the first 100 days of unemployment spells are most frequent for those that are treated as 20 to 24 year olds. After 100 days there are no major differences.

The comparison with those above 24 means that it is better to be in the group which is given priority amongst the case workers *and* who expect to be put in active programs after 100 days. This can be given one of two possible explanations – either it is due to a positive effect of the extra attention the workers get from case workers *or* it is due to "pre program deterrence effects," i.e. that they look for jobs harder in order to avoid the programs they are expected to participate in after 100 days. Regardless of which interpretation is correct, it means that job search activities are a key element in shortening unemployment spells of young workers. Since the positive effect disappears after around 100 days, it is suggested that there are no positive effects of participating in the various programs. Although it is important to keep in mind that the effects *before* the programs changes the composition so that the stocks of remaining unemployed may no longer be comparable 100 days into the spell.

Why do those over 20 perform better than those who are slightly younger? One reason is that they are put in programs somewhat later than those below 20. This means that there is more time for job search activities, and for the pre-program deterrence effects to take effect. Another potential reason is that they only are allowed to enter the municipality provided programs. Forslund and Skans (2006a) show that 20-24 year old participants in the PES administrated programs fare significantly better in terms of job finding rates than participants in the municipality run programs with similar characteristics and labour market history. This suggests that decentralization of the youth policies to the municipalities have not been a success.

Further results in Forslund and Skans (2006a) compare participants in work practice programs to participants in labour market training programs. The comparisons are based on groups which are matched on a wide set of characteristics and labour market history indicators. Results show that the job finding rates are substantially higher for those participating in the practice programs than for similar participants in labour market training. This suggests that the contacts with employers provided by the practice programs are more important than the more formal occupational training provided by labour market training. It should however be noted that the long run results (with a follow-up period of two years) are somewhat more in favour of the training programs. More work is however needed to clarify these long-run results.

4.1. Discussion

The challenges facing the youth unemployment policies are many. The first is to find the right balance between search assistance and active policies. The results reviewed above suggest that search assistance is preferred at least early on in an unemployment spell.

Although the results presented in the evaluation studies discussed above appear to be remarkably stable when estimated for many different subgroups it is also clear that we need to find ways of using the right program for the right individual.

Yet another challenge is to find the right balance in the relationship between education and labour market policy – and to what extent should drop outs be let into the normal labour market programs? A motivation for holding the younger unemployed outside of the normal

labour market policies is to not compete with regular education, but it may come at a cost of treating the youngest unemployed worse than the slightly older. A motivation for letting the municipalities handle much of the labour market policies for the young unemployed is to improve the coordination with regular education, however as shown above this route does not appear to have been successful in terms of job finding rates. Another key variable is to coordinate the monetary compensation since competition between the various systems is likely to be a bigger problem if the compensation to participants in labour market programs is higher than the allowance paid to participants in regular education.

Several changes in the labour market policies for the young have been announced. Firstly, there will be a general payroll tax cut for all employees aged 20 to 25. The lower age limit is motivated by a fear of competition with the regular education system, suggesting that the priority given to regular education remains within the new government. The partial pay-roll tax exemption for young workers is likely to counteract some of the negative effects of high minimum wages – but it is not a policy which specifically targets the most vulnerable groups.

There will be an additional payroll tax cut for all below 25 after six months of unemployment (or sickness). The subsidy will last for between 6 to 12 months depending on the length of the job-less spell. A similar system is currently available, but only on a limited basis and after approval from a PES case worker. There exist no evaluations of such these subsidies for young workers but evidence for older (long term) unemployed workers suggest that the effects are positive, but that there will be substantial displacement effects, i.e. that subsidies will be paid to jobs which would have materialized even without the subsidy. This risk is naturally higher if the subsidy is paid to workers with a good chance of finding a job even without the subsidy which is likely if the subsidy is granted to young workers with just 6 months of unemployment.

Several other suggestions are underway but have not yet appeared, such as a removal of the municipality sponsored programs and the introduction of a “program guarantee” suggested to take effect after 50 days of unemployment. How these suggested changes will look in practice is however too soon to say.

5. Summary

The Swedish system of upper secondary education has an ambitious target curriculum and provides many chances for failing students to come back and finish their studies. Transition rates from most vocational programs to higher education are very low, suggesting that there are small benefits from the academic parts of the curriculum. On the other hand, the hurdle put up by the ambitious curriculum makes non-completion rates high despite the fact that most students spend much time within the system. Many students with low educated parents or immigrant background are unable to cope with the current system.

School competition, a decentralized educational system and a strong belief in the importance of providing students with the education they want creates an educational mix which is a function of student choices and preferences. These are not always based on realistic assumptions regarding expected labour market outcomes. A challenge is to find ways of coordinating student choices with the needs of the labour market.

Vocational programs should provide workplace practice as an integral part of the education, although the implementation of this regulation varies in practice. Trainee and qualification systems are mostly present in some, mainly male dominated, professions. Many students work during their school years and 20 percent of students with a swift transition between school and work start their careers at a site where they worked already while in school. The casual jobs are however sensitive to the business cycle and highly correlated with parental employment.

Youth unemployment is high in Sweden. Both compared to other countries, and probably

also compared to the past. Still, it appears that long term unemployment is more a problem for the older unemployed. There has been an increase in the use of temporary contracts which makes it easier to find some employment – but harder to find permanent jobs.

There are extensive labour market policies for the unemployed youth. Evaluations suggest that job search assistance is a better way of getting unemployed young workers into employment than are "active" labour market programs. At least this holds early in an unemployment spell. In a comparison between programs, it appears that decentralizing programs to municipalities which are handling regular education is not a fruitful policy and that workplace practice is more effective than labour market training.

References

Åslund, O., R. Eriksson, O. N. Skans and A. Sjögren (2006), *Fritt inträde? – Ungdomars och invandrares väg till det första arbetet*, SNS förlag, Stockholm.

DS (2000), "Samverkan mellan skola och arbetsliv. Om möjligheterna med lärande i arbete", Ds 2000:62, Fritzes, Stoockholm.

Eliasson, K. (2006), "College Choice and Earnings Among University Graduates in Sweden", Umeå Economic Studies 693, Umeå University, Umeå.

Forslund, A. and O. N. Skans (2006a), "Swedish youth labour market policies revisited", *Vierteljahrshefte zur Wirtschaftsforschung* (Quarterly Journal of Economic Research) 75(3), pp 168-185.

Forslund, A. and O. N. Skans (2006b), "(Hur) hjälps ungdomar av arbetsmarknadspolitiska program för unga?" Rapport 2006:5, IFAU, Uppsala.

Holmlund, B., Q. Liu and O. N. Skans (2006), "Mind the Gap? Estimating the effects of postponed education", Working paper 2006:11, IFAU, Uppsala and 2006:17, Department of Economics, Uppsala University.

Holmlund, B. and D. Storrie (2002), "Temporary Jobs in Turbulent Times: the Swedish Exxperience", *Economic Journal* 112, F245 – F269.

Larsson, L., L. Lindqvist, and O. N. Skans (2005), "Stepping-stones or dead-ends? An analysis of Swedish replacement contracts?", IFAU Working Paper 2005:18, IFAU, Uppsala.

LO (2006), "Vägar till arbetslivet", Slutrapport till LO:s representantskap, Landsorganisationen, Stockholm.

OECD (1999), *Employment Outlook*, OECD, Paris.

OECD (2004), *Employment Outlook*, OECD, Paris.

Skans, O. "Scarring effects of the first labour market experience – A siblings based analysis", IFAU Working Paper, 2004:14, IFAU, Uppsala.

Skans, O. N., P-A Edin and B. Holmlund (2006), "Wage dispersion between and within plants: Sweden 1985-2000", forthcoming in Lazear, E. and K. Shaw (eds), *An International Comparison of the Structure of Wages Within and Across Firms*, University of Chicago Press.

Skedinger, P. (2005), "Hur höga är minimlönerna?", Rapport 2005:18, IFAU, Uppsala.

Skolverket (2006), *Beskrivande data om förskoleverksamhet, skolbarnomsorg, skola och vuxenutbildning*, Skolverket, Stockholm, 2006.

Wang, I. J. Y., K. Carling, and O. Nääs (2006), "High school student's summer jobs and their ensuing labour market achievement", IFAU Working Paper 2006:14, IFAU, Uppsala.

Appendix

Table A1. High School Performance at Age 20 – Background and Correlations with Outcomes

		Vocational		Academic	
	Compulsory[A]	Incomplete grades[B]	Complete grades[C]	Incomplete grades[B]	Complete grades[C]
Background					
All	0.172	0.068	0.358	0.039	0.363
Swedish born					
- With Swedish parents	0.141	0.069	0.375	0.037	0.378
- With one foreign parent	0.205	0.075	0.320	0.047	0.352
- With two foreign parents	0.250	0.073	0.322	0.049	0.307
Foreign born	0.362	0.045	0.273	0.043	0.277
Male	0.186	0.081	0.364	0.041	0.329
Female	0.157	0.054	0.351	0.037	0.400
Parents education					
- At least one with university	0.144	0.042	0.269	0.055	0.491
- Both less than 10 years	0.315	0.078	0.376	0.029	0.202
Outcomes					
Earnings (100 SEK), age 20	481	926	909	703	618
Stable job[D] at age 20	0.189	0.479	0.432	0.310	0.235
Starting higher ed. at age 22	0.050	0.045	0.170	0.275	0.651
If not higher ed:					
Earnings (100 SEK), age 22	834	1332	1466	1141	1221
Stable job[D] at age 22	0.367	0.638	0.682	0.548	0.564

Source: Own calculation on population wide register data of completed education from the IFAU data base.

Note: Age of completion is the age of the highest achieved education which may include incomplete studies. Data only excludes those with more than upper secondary education at age 20 or shorter but completed educations. 12.3 percent are therefore not classified and dropped from the table. [A]Including incomplete post compulsory education if shorter than 1 semester. [B]Studies with incomplete grades of at least 1 semester, but less than three years. [C]Three years long post compulsory education with complete grades. [D]Stable jobs are defined as half the median income of 45 year olds (approx. 7 monthly minimum wages) during a calendar year.