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ECONOMIC ANALYSIS FROM EUROPEAN COMMISSION'S DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

HIGHLIGHTS IN THIS ISSUE:

- Young people, non-EU immigrants and those without upper-secondary education are the most vulnerable
- Youth unemployment appears high due to a number of factors
- Lack of skills and education is the main obstacle for both immigrants and native Swedes
- Low use of work-based learning and apprenticeships inhibits Sweden's labour market performance
- High entry wages, employment protection legislation and the system of student aid may also play a role

Sun spots on the Swedish labour market?

By Pavlína Žáková*

Summary

The performance of the Swedish labour market is generally very good. However, the labour market does not function well for young people without upper-secondary education, for those with non-EU migrant background or for the low-skilled in general. Their unemployment rates are far higher than those of the remainder of the working-age population and are above the EU average. Lack of skills and education appears to be the main obstacle for these groups to become established in the labour market. To tackle this, policy-makers should focus mainly on further strengthening the vocational track in upper-secondary education and on promoting apprenticeships. Moreover, allowing for greater flexibility at the lower end of the wage structure – together with enhanced training efforts – could improve the employment prospects for those with low skills or little work experience. Easing the employment protection linked to permanent contracts might help the low-skilled to become permanently established in the labour market. Other areas where improvement could be sought include the system of financial support for students, the matching process and the integration of immigrants.

Introduction

Seen from the European perspective, the Swedish labour market performs well, in particular in terms of integrating people into the labour force. With an employment rate for the age group 20-64 reaching 79.4% in both 2011 and 2012, Sweden's Europe 2020 employment target of 80% has been almost achieved. The long-term unemployment rate is among the lowest in the EU. A large and well-educated workforce is one of the pillars of Sweden's strong competitiveness position. A high degree of labour force participation also underpins a high level of social inclusion and allows a developed welfare system to be financed for those outside the labour market. Thanks to a constructive relationship among the social partners, employee turnover is relatively low as is the number of days lost due to labour disputes.

Yet, not all parts of the work force benefit to the same degree from this outstanding labour market performance. In particular, young people, non-EU immigrants and low-skilled people record much higher unemployment rates and lower employment rates than the rest of the working-age population. The purpose of this note is to discuss the nature and reasons behind the underperformance of these groups and to identify policies for Sweden to secure full use of its labour resources.

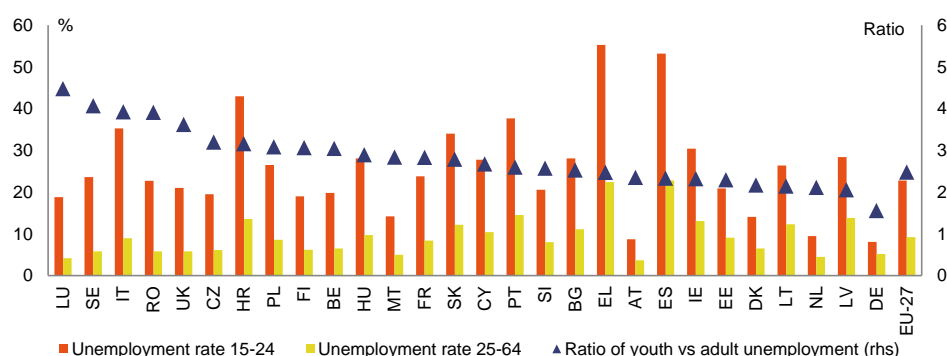
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The spectre of youth unemployment

- Large differences between youth and adult unemployment

Young people are often quoted as those having a particularly weak foothold in the Swedish labour market. Whereas the employment rate for the age group 25-64 (82.3% in 2012) is by far the highest in the EU, Sweden ranks "only" eighth for young people between 15 and 24. However, while the low employment rate can be explained by the high share of young people in tertiary education (the tertiary attainment rate in the age group 30-34 was 47.9% in 2012), the unemployment rate for the young (23.6% in 2012) is challenging. It is four times that of the "adult" population (5.8%) – the second largest relative difference in the EU (Graph 1). It also exceeded the EU average of 22.8% in 2012. The development over time is also worrying: the unemployment rate climbed from 13% up to 23.6% between 2002 and 2012 whereas the "adult" population recorded a much smaller increase (from 4 to 5.8%) (Graph 2).

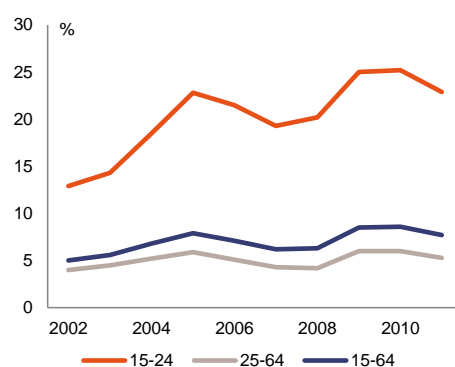
Graph 1: Youth and adult unemployment rates, 2012



Source: Commission services (Eurostat)

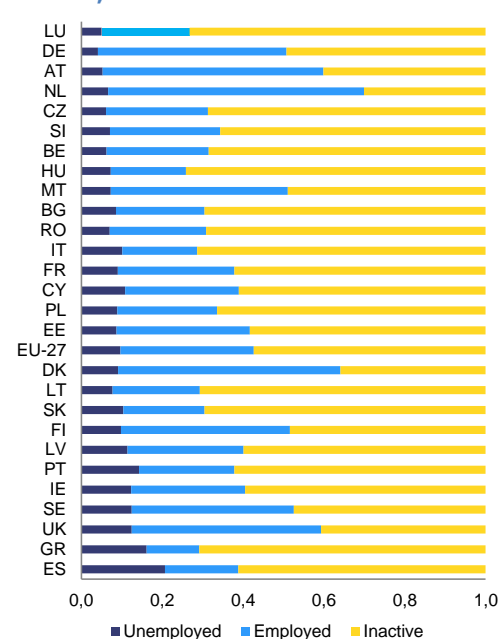
The youth "unemployment ratio" – i.e. the share of unemployed among the population aged 15-24 (instead of the labour force), a big share of which belong to the inactive category – confirms the unfavourable standing of Sweden.¹ The Swedish unemployment ratio stood at 12% in 2011, above the EU average of 9.1%, and was the fourth highest in the EU (Graph 3).

Graph 2: Unemployment rates, Sweden



Source: Commission services (Eurostat)

Graph 3: Population aged 15-24 by status, 2012



Source: Commission services (Eurostat)

- Youth unemployment appears high due to a number of factors

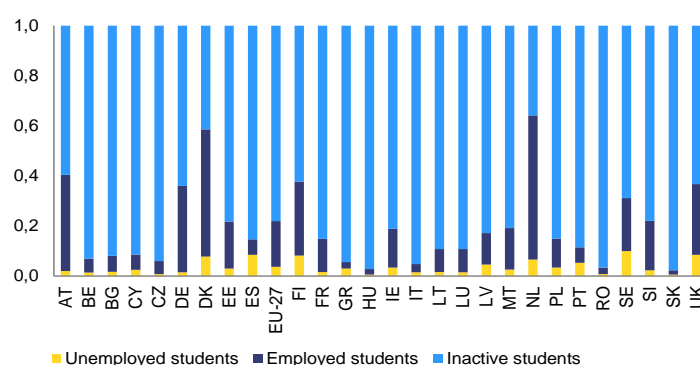
However, there are several factors that mitigate to some extent concerns about the relatively high level of youth unemployment. First of all, the latter does not imply low use of the human capital of the young. Sweden has one of the lowest NEET rates in the EU (young people who are not employed nor in education or training as a share of the population aged 15-24). This

means that the share of young people, who are left behind and difficult to mobilise to work, to look for a job or to study, is rather low since, in comparative terms, many young Swedish people are in education.

■ *Half of young unemployed are students ...*

Second, a large share of the young classified as unemployed in the Labour Force Survey is made up of students searching for a job. The share of students among the young unemployed was 50% in 2012, up from about a third at the beginning of the 2000s. The increase in the share of students looking for a job explains almost half of the rise in the youth unemployment rate over that period. The high share of students reflects a relatively strong participation rate of Swedish students: some 31% of students were active in the labour market in 2012 – either as employed (21%) or as unemployed (10%) – see Graph 4. The average participation rate of students was 22% for the EU but was nevertheless higher in the other Nordic countries and countries with Germanic languages (from 38% in Finland to 64% in the Netherlands).²

Graph 4: Student population by status, 2012

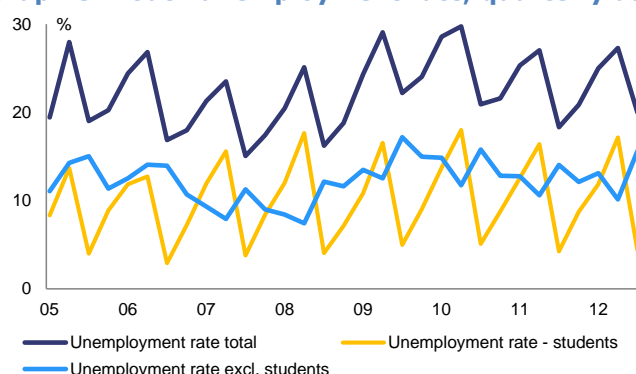


Source: Commission services (Eurostat)

■ *... who look for a summer job or a full-time job after graduation*

Third, according to a survey conducted by Sweden Statistics³, only about 5% of students recorded as "unemployed" consider themselves really as unemployed, i.e. they opted for further training because they could not find a job. The vast majority of "unemployed" students consider themselves primarily as students looking for a job. This is supported by the distinctive seasonal pattern in the data: the "student unemployment rate" typically increases to around 17% in the second quarter when a large number of students are looking either for a summer job or a full-time job to take up after graduation. It then drops sharply to some 5% in the third quarter when graduates are absorbed in the labour market and remaining students moderate their job-searching activity (Graph 5). In this light, student unemployment appears to be much less worrying and does not suggest substantial problems in the functioning of the labour market.

Graph 5: Youth unemployment rate, quarterly data



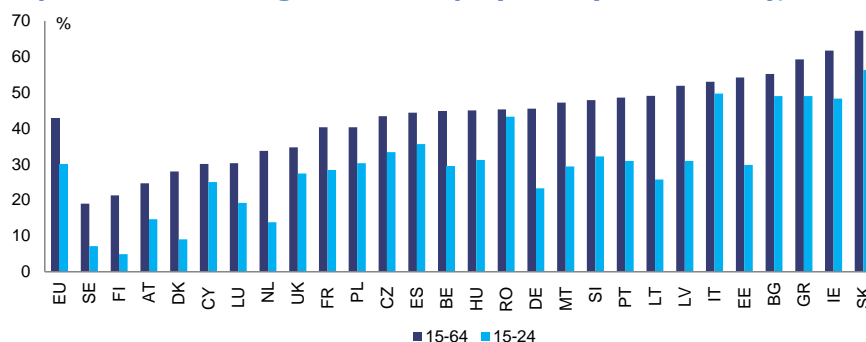
Source: Commission services (Eurostat)

■ *Youth unemployment is primarily short-term*

Fourth, youth unemployment in Sweden is predominantly short-term in nature. The long-term unemployment rate for youth, measured as a share of unemployment lasting longer than one year in total unemployment, was merely 7.1% in 2012, the second lowest in the EU (Graph 6). It has also remained stable over the last decade, unlike the overall youth unemployment rate, suggesting that the Swedish labour market and educational system have

remained efficient in removing young people from unemployment. In fact, more than half of the young unemployed leave unemployment within less than three months and 75% within six months. This squares well with the above observation that half of the young unemployed are students searching for a job, who either find employment quickly or decide to devote themselves fully to education. It is also related to the large share of young people having temporary contracts (55.7% in 2012). As a result, flows into and out of unemployment are stronger than for the "adult" population and tend to overstate the challenge suggested by the unemployment rate.

Graph 6: Share of long-term unemployment (>12 months), 2012



Source: Commission services (Eurostat)

■ *High youth unemployment could be a temporary feature*

■ *Strong inflows into the labour force over the last decade have not been absorbed by employment growth*

Finally, increased youth unemployment over the past few years might be to some extent a temporary development. The labour force grew at a higher pace in the second half of the 2000s due to extensive government reforms aimed at bringing people into the labour market.⁴ In particular, the reform of the unemployment benefit system in 2007, the reform of the sickness and disability benefit schemes in 2006-08 and the introduction of the in-work tax credit in four steps between 2006 and 2010 have led to higher participation rates. At the same time, the reforms strengthened incentives for older workers to stay longer in employment. A "generation effect" has also played a role i.e. the strong generation of post-war baby boomers – currently around 64 years old – and strong young cohorts around 22 years of age have coexisted in the labour force in the past few years.⁵ Although employment growth has also been higher than normal, it has not been sufficient to absorb the unusually strong inflows into the labour force over that period. Given the extensive employment protection of permanent workers, young people have – as new entrants into the labour market – found themselves at a disadvantage in getting a foothold therein.⁶ Looking forward, it can be expected that the effects of the above-mentioned reforms and the generational effect will fade away and that labour force growth will return to levels closer to its historical average.

In conclusion, several factors have been highlighted that tend to push up the youth unemployment rate: a large share of students among the unemployed, high turnover and short unemployment spells, a temporary expansion in the labour force and the generational effect. Yet, these factors cannot fully alleviate concerns about youth unemployment. Even if students are disregarded, the remaining youth unemployment rate is rather high (11.9% in 2012) compared to Sweden's peers in terms of labour market performance (from 2.5% in the Netherlands to 8.1% in Finland). Most of these non-student, unemployed persons are low-skilled people without completed upper-secondary education and young people with non-EU immigrant background.⁷ These (over-lapping) groups appear to be the most vulnerable and should be the main focus of labour market policy measures.

Immigrants and foreign-born people

■ *From labour migration to refugee and family migration*

Immigrants, especially those from countries outside the European Economic Area and irrespective of their age group, represent another disadvantaged group in the Swedish labour market. Sweden has been a traditional haven for immigrants, mainly labour migration from European countries. However, since 1990s, the composition has shifted to primarily refugee and family migration from non-EU countries and the labour market integration of foreign-born individuals has become an increasingly serious challenge.

■ *Non-EU immigrants struggle more than in other EU countries*

Foreign-born persons account for about 14% of the population in Sweden, out of which about 9 pps. represent people born outside the EU and 5 pps. people born in another EU country. The labour market integration of the latter group is similar to Swedish-born individuals, at least for the overall population aged 15-64 (see Table 1); therefore our focus is on those born outside the EU.⁸ In 2011, the employment rate of the latter stood at 58.6% and their unemployment rate reached 19.4%, deviating significantly from the corresponding rates for the whole active population. These statistics do not identify second-generation immigrants born in Sweden and/or bearing the Swedish nationality, whose labour market situation is worse than that of Swedish Swedes, but markedly better than fresh immigrants (OECD, 2010). Compared with other EU countries, the difference in employment/unemployment rates between natives and immigrants is larger in Sweden. In 2012, the gap between the employment rate of people born in the country and those born outside the EU was 17.6 pps., the third highest in the EU and well above the EU average of 7.4 pps. The attachment of immigrants to the labour market is also weaker compared to other EU countries with a similarly large immigrant population (Austria, UK).

Table 1: Labour market status of residents in Sweden according to place of birth (2012)

	Born in Sweden	Born in another EU country	Born in a non-EU country	Low -skilled (irrespective of origin)	Total
Employment rate 15-64	76.2	74.1	58.6	46.3	73.8
Employment rate 15-24	41.6	31.4	29.4	18.9	40.2
Unemployment rate 15-64	6.5	7.8	19.4	18.2	8.1
Unemployment rate 15-24	22	31.7	37.8	38.6	23.6
Share in population 15-64	86	5	9	24	100

Source: Commission services (Eurostat)

Over time, the labour market integration of people born outside the EU improved constantly between 1996 and 2007 but then deteriorated sharply with the 2008-09 crisis. Between 2008 and 2012, the unemployment rate of this group increased from 15.3 to 19.4%. This deterioration occurred particularly among the age group 15-24, where the unemployment rate jumped from 26.3% to 37.8%, whereas the increase for the older group was much lower.⁹ Besides the young, women have a particularly weak attachment to the labour market among those born outside the EU - their employment rate is 21.3 pps. lower than that of Sweden-born women, and this is the second highest gap in the EU. It should be noted that the unemployment rate of non-EU immigrants improved slightly between 2011 and 2012 despite an overall deterioration in the labour market, possibly suggesting that extensive measures targeting this group are eventually bearing some fruit.

■ *Lack of language and other skills is a key problem*

The lack of skills and education appears to be the main factor behind the weak performance of immigrants in the labour market. Immigrants from non-EU countries typically have a low level of education when entering Sweden, and if they have grown up in the country, many belong to the group of early-school leavers. Lack of knowledge of the Swedish language is the first problem to mention. Other factors explaining the difference in labour market outcomes between immigrants and natives include poor access to informal networks to find a job through informal channels, ethnic discrimination,¹⁰ problems of acceptance of foreign qualifications and maintenance of gender roles from non-EU societies (long parental leaves).

■ *Lack of skills and education is becoming a red light also for the Swedes*

Lack of skills is an increasingly important hindrance also for native Swedes. The unemployment rate of the low-skilled doubled from 8.1% to 18.2% between 2002 and 2012 and is above the EU average, especially for young people, who saw their unemployment rate increase from 16.7% to 38.6%. It is noticeable that people without upper-secondary education have similar unemployment rates to non-EU immigrants, in both the 15-24 and the 15-65 age groups.¹¹ However, they have lower employment and activity rates (see Table 1). This is related to the fact that some non-EU immigrants have higher levels of education (e.g. those coming from Norway), but it may also indicate that incomplete education could be a more important impediment to employment than the country of origin, since it can discourage

people from participating in the labour market at all. Sweden has seen a particularly strong structural shift in the labour market, which was triggered by technological progress and globalisation and resulted in the elimination of a large number of low-skilled jobs and in higher requirements for formal education. In this sense, improvement of skills and adaption of education to the new needs of the labour market appear to be key to enhancing the employability of new labour market entrants.

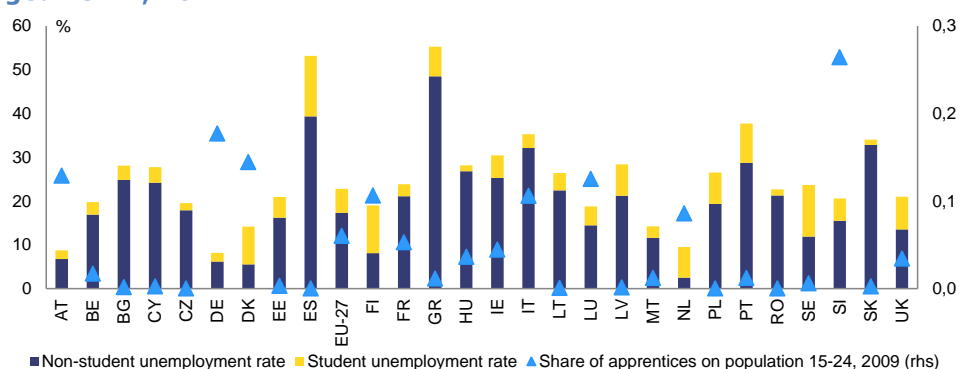
What role do policies play?

■ *Low use of work-based learning hinders transition from school to work*

Since various threads of analysis point to a lack of education and skills as a common cause of the underperformance of vulnerable groups, the **education system and the transition from school to work** are first under the spotlight. The main shortcoming of the school system is the weak vocational content of upper-secondary education. The use of apprenticeships is low and the work-based content in school-based vocational education is also weak (15 weeks, below the OECD indicative threshold of 20 weeks). Cooperation between schools and workplaces is also not well developed. Moreover, due to convergence of the general and vocational education tracks at the upper-secondary level in the 1990s, those who did not intend to continue with higher education lost the possibility of following a less-scientific, vocation-oriented, education. This has resulted on one hand in higher school drop-outs among those who do not succeed in mastering the advanced general education content and, on the other hand, in more frequent youth unemployment spells starting directly after graduation due to a lack of vocational knowledge.

The lack of work-based learning appears to be the main institutional feature distinguishing Sweden from other countries with high employment rates, like Germany, Austria, Denmark or the Netherlands (Graph 7). These countries succeed not only in achieving high employment rates for all age groups, but they also – unlike Sweden – record low youth unemployment rates. Sweden undertook a major reform of upper-secondary education in 2011 with the aim of strengthening the vocational content and reintroducing apprenticeships. Additional funding for work-based learning has been approved since then. Nevertheless, since a vocational training system is not easy to establish, it will take several years before the effects of the reforms are seen in the labour market.

Graph 7: Youth unemployment and share of apprentices in the population aged 15-24, 2012



Source: Commission services (Eurostat)

■ *Entry wages may be too high for low-skilled workers and young people with unknown productivity*

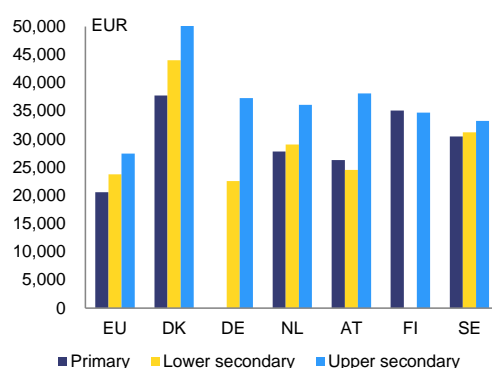
Another hindrance is likely to be related to **the relative level of wages at the lower end of the wage scale**. The Swedish wage structure is compressed and undifferentiated in particular at its lower end (Graph 8). While wages increase with the level of education attained in the upper part of the distribution, wage differentials at the lower end are small and the premium for higher education is reflected more in higher employment chances than in higher (entry) wages (Graph 9). The gap between employment rates of people with and without upper-secondary education increased substantially between 2002 and 2011. Many analysts have pointed out that substantial rigidity in the lower part of the wage structure prevents wages from reflecting productivity differentials between individual workers or sectors.¹² It follows that a possible flexibilisation of wages for inexperienced young people and low-skilled people and/or increasing their productivity through enhanced training activities could result

in increasing their employment and could mitigate the potential insider-outsider-problem under which wage levels are set for incumbents and low weight is attached to increasing employment chances for the unemployed.

- *Minimum wages problematic in labour-intensive service sectors*

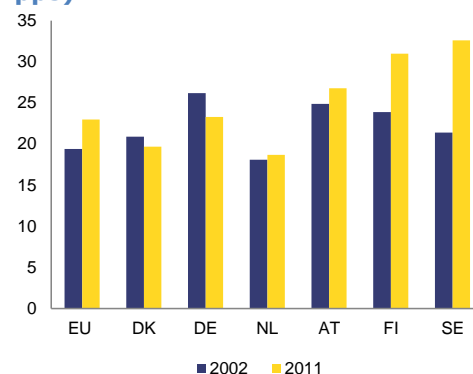
Entry wages are not necessarily high in all sectors. For example, minimum wages agreed by the social partners are scarcely used in the manufacturing sector where wages are set carefully to follow productivity developments. Wage agreements in other sectors typically follow the manufacturing sector, although the sectors differ in terms of productivity growth. As a result, agreed minimum wages are effectively earned by a distinct share of workers in sectors with lower productivity growth, such as the retail sector. In such sectors, minimum wages may have become rather high and may weigh on the employability of job-seekers with limited education or low productivity, who would be willing to accept lower wages.¹³

Graph 8: Annual earnings according to level of education attained, 2010



Source: Commission services (Eurostat)

Graph 9: Difference between the employment rate of workers with primary and secondary education (in pps)



Source: Commission services (Eurostat)

The government endeavoured to reduce the labour costs of young people, immigrants and the long-term unemployed by lowering the social contributions paid by employers for these groups. It is often argued that this measure had no noticeable effect on employment of these groups and minimum wages cannot therefore be an obstacle to their employment. However, since the reforms coincided with the crisis of 2008/2009, it is very difficult to distinguish the effects of the reform from the cyclical effects. In 2007, when the first cut in social contributions for young people was implemented, the unemployment rate of un-skilled youth actually dropped substantially.¹⁴ Furthermore, the effect of lower social contributions was partly erased by higher wage increases at the low end of the scale in the subsequent period.¹⁵

- *Reform of student support made it more difficult for low-skilled to find a job*

The reform of student aid in 2001 may also have been partly responsible for increasing unemployment among low-skilled young people. Whereas financial support of students at universities had previously been very generous, the reform increased the ceiling for earnings by students while receiving such support and simultaneously tightened the repayment schedule for student loans.¹⁶ Using an econometric model, Avdic and Gartell (2011) show that these policy changes provided incentives for students to substitute some of their loans for earnings and thereby to reallocate time from studying to work.¹⁷ Since the reform has pushed more students into work, these university students – often taking low-skilled jobs – may also partially substitute for low-skilled young people who are less attractive for employers. Apart from the design of student aid, the high share of Swedish students working may also be explained by their relative independence (they separate from parental households at the moment of entry to the university) or by shortages in housing (given the difficulties in obtaining accommodation in large and university cities, students may feel obliged to start saving to be able to get a mortgage).

- *Employment protection plays a smaller role, but also disfavours the low-skilled*

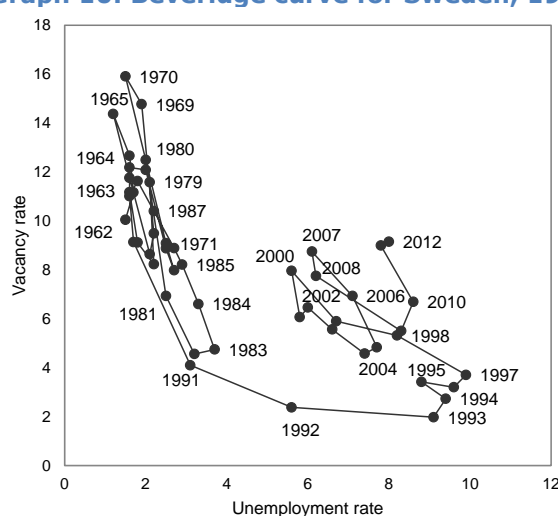
The strong duality in the employment protection legislation is another factor contributing to higher youth unemployment, although its relative importance seems to be lower. Empirical studies show that a wide gap between flexible rules for temporary contracts and strict protection for permanent jobs leads to high turnover in temporary jobs.¹⁸ The risk is that workers may find themselves trapped for several years in a circle of short unemployment

spells and fixed-duration contracts, which may negatively affect their employability. In Sweden, the share of temporary jobs is high (16%, the sixth highest in the EU) and it is the typical form of employment for young people, especially those without upper-secondary education and/or with an immigrant background.¹⁹ Nevertheless, the risk of being captured in a vicious circle does not seem to have materialised to any large scale. OECD (2012) finds that as many as 41% of temporary workers move from a temporary to a permanent job, which is the sixth highest share among the European OECD members. This suggests that employers often use temporary contracts as a prolonged probationary period and as a transitory step towards employment. Also, some benefits of the design of employment protection must be acknowledged: the high share of temporary contracts ensures a valuable flexibility in the labour market and strong protection of permanent workers effectively prevents unemployment among older workers. However, for the specific group of people without upper-secondary education, the design of employment protection may be detrimental to their labour market prospects. According to OECD (2012), more than 10% of temporary workers move into unemployment, and incomplete education represents the biggest obstacle to the movement of people from a temporary to a permanent contract in Sweden (age or gender being much less important).²⁰ This emphasises the recurrent issue of insufficient skills or incomplete education. For people with these characteristics, the dualistic protection legislation indeed may be a source of difficulties in getting a foothold in the labour market.

■ *Matching has deteriorated over the last decade due to larger skills mismatches and a rigid housing market*

Matching between job vacancies and the unemployed does not seem to be fully effective. The Beveridge curve has shifted outwards following the 2008-09 crisis (Chart 10). Hobijn and Sahin (2012) show that the outward shift in Sweden was larger than in other countries. This means that there are more vacancies for a given level of unemployment, suggesting that the matching process functions less effectively. The skills mismatch index supports this finding: although matching is still rather effective compared to most European countries, it has deteriorated considerably since 2007.²¹ One reason behind this poorer matching is probably an increase in skills mismatches. As mentioned earlier, the crisis revealed and eliminated jobs that had become obsolete with technological progress and left behind a pool of workers with unattractive skills for the labour market. Moreover, the design of upper-secondary education has contributed to an expanding group of early-school leavers and people with little vocational education, whereas employers are looking for more on-the-job skills or at least evidence of educational achievement. Another factor behind the shift in the Beveridge curve after 2007 could be the pre-crisis labour market reforms, which may have resulted in higher participation rates.²² Apart from these, the insufficient and inflexible supply of housing may also have played a role.²³

Graph 10: Beveridge curve for Sweden, 1962-2012



Source: OECD

Conclusions

This paper indicates that the Swedish labour market does not function well for young people without upper-secondary education, non-EU immigrants and the low-skilled in general.

Although Swedish youth unemployment may be often overstated, due to various Sweden-specific factors and statistical issues, it remains a challenge for policymakers to tackle. Some policies currently in place are likely to contribute to underperformance of the labour market for these groups. The lack of work-based vocational education hinders transition from school to work and, together with the design of upper-secondary education, leads to an expanding pool of people with insufficient or inappropriate skills, who are prone to being trapped in temporary jobs or recurring periods of unemployment. Entry wages in some sectors, such as retail, may be above the market-clearing level and may lead to a sub-optimal level of employment. The strong duality of employment protection legislation is detrimental to the prospects of low-skilled people, who face difficulties in obtaining a permanent contract. The reform of student support has led more university students to combine work with their studies, possibly crowding out low-skilled people from often low-paid temporary or part-time jobs. The matching process has deteriorated, with skill mismatches rising after the 2008-09 crisis and an inflexible housing supply increasingly hindering matching between job-seekers and job-providers from different regions. As for immigrants, lack of language and other skills, difficulties in recognition of qualifications and ethnic discrimination are the main impediments to employment.

All these factors are likely to contribute to explaining observed labour market performance but their relative importance is difficult to establish; the exception is the lack of skills which appears to a common cause of most problems presented here. Technological progress and globalisation have made it difficult for people without appropriate skills to get ahead in the labour market, with young people, including early school leavers and people with a non-EU immigrant background, being the most vulnerable. This warrants the specific attention of policy makers. Young people and immigrants offer the largest potential return since their integration in education and the labour market is crucial for their life-long employment prospects as well as those of their families.

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¹ The unemployment ratio (the share of unemployed in total population) can be more pertinent than the unemployment rate (the share of unemployed in the labour force) for the young generation since the latter rate can be biased downwards in countries with a wide use of apprenticeships. Apprentices (if receiving a salary) are counted as employed and therefore increase the size of the labour force in Sweden, while vocational students in other countries are not included in the labour force.

² Compared to Sweden, students in the UK, Finland, Austria, Germany, Denmark and the Netherlands are characterised by higher participation rates in the labour market. In most of these countries, this is due to a widespread use of apprenticeships among students, which are then recorded as employment.

³ Sweden Statistics, "AKU 1:a kvartalet 2009 (tema ungdomsarbetslöshet)", Statistiska meddelanden AM 11 SM 0902

⁴ The labour force grew on average by 0.5% annually over 2001-2005 and by 1.1% over 2006-2011.

⁵ Looking at the distribution of population aged 15 to 69, the share of young people aged 15 to 24 rose from 16.8% to 18.7% between 2001 and 2011 and the share of the group aged 60 to 69 expanded from 13.5% to 17.5%.

⁶ See European Commission (2010).

⁷ In 2012, the low skilled accounted for 46% of the young unemployed. Non-EU nationals accounted for a mere 5.1% but it is very likely that the share would be higher if second-generation immigrants (already Swedish citizens) were included.

⁸ In fact, the unemployment rate for young people born in another EU Member State is far above that born in Sweden. The labour market standing of this group would require a specific analysis which is beyond the scope of this paper.

⁹ For "non-EU nationals", the unemployment rate increased from 22.3% to 30.9% between 2008 and 2012, and from 35% to 51.4% for the 15-24 age group.

¹⁰ For a discussion on impediments to labour market integration of immigrants, see Lemaitre (2007) or Eriksson (2011).

¹¹ These two groups overlap, but only to some extent. The share of immigrants with pre-upper secondary education is around 25%, i.e. 3-4% of total population aged between 15 and 64. Since the share of population with pre-upper-secondary education is 24% (2012), immigrants account only about one seventh of this group.

¹² For instance, OECD (2011 and 2013), Skedinger (2006, 2007, 2008 and 2011) and Sahlen (2012).

¹³ NIER (2010) reports on a survey showing that a large part of the unemployed would accept a job with a wage below the relevant minimum wage.

¹⁴ Between 2006 and 2007, the unemployment rate of young people (15-24) without upper-secondary education dropped from 34.3% to 32.9%, whereas for those with upper-secondary education it fell from 15.9% to 12.9%. For the adult group (25-64), the corresponding falls were much smaller: from 7.4% to 6.9% for the low-skilled and from 4.8% to 4% for those with completed upper-secondary education. This suggests that young people indeed benefitted from the reduction in social contributions, although the benefits were higher for those with an upper-secondary degree (students working part-time).

¹⁵ According to Bennmarker, Calmfors and Larsson (2011), the reductions in the payroll tax for young people may have had an increasing effect on wages, partially offsetting effect on the tendency to lower wage increases from the reductions in the after-tax replacement rate for unemployed. Bennmarker et al. (2009) found that cuts in payroll taxes for companies in northern Sweden in 2002 did not have any positive effects on employment, but did have a positive effect on wages.

¹⁶ In the current set-up, the ceiling for exempt earnings (140 000 SEK per academic year) does not represent a serious limitation to student work. Assuming a generous wage of 150 SEK/hour (the median salary of workers in the private sector being SEK 144 per hour in 2011) and a work pattern of 10 hours per week during the school-year and further 10 weeks of full-time work during summer, the total income would be 120 000 SEK per year, i.e. still below the ceiling.

¹⁷ This matches well with the fact that Swedish students have longer study periods and a higher graduation age than students elsewhere (OECD, 2012).

¹⁸ Blanchard and Landier (2002), Cahuc and Postel-Vinay (2002), Blanchard, Jaumotte and Loungani (2013).

¹⁹ About 60% of employed 15-24 years olds have temporary contracts, the percentage being above 70% for low-skilled young people (OECD 2012).

²⁰ According to the OECD study, having a secondary degree would raise the probability of getting a permanent job by 70% (OECD, 2012).

²¹ European Commission, European Economic Forecast Autumn 2011, p.68. The skills mismatch index is calculated as the gap between the average proportions of the low-, medium- and high-skilled in the working-age population and the corresponding proportions in employment.

²² Hobijn and Sahin (2012) argue that the shift in the Beveridge curve was not driven by lower matching efficiency but rather by higher separation rates. They associate it with the pre-crisis labour market reforms (higher participation rates, longer duration of unemployment benefits).

²³ For analysis of the rigidities in the Swedish housing markets, see e.g. European Commission (2013). As for the effects on labour mobility, Jonsson (2012) finds, first, that rent regulation and conversion of rental tenure into tenant-ownership creates lock-in effects in cities and metropolitan areas. With irresponsible residential construction and decreasing availability of rental housing, the housing market is affecting labour mobility adversely. Second, labour mobility is lower in regions with lower house prices. Escalation of house prices in growth areas between 2000 and 2010 (due to high demand and inflexible supply) has therefore created another obstacle to labour mobility from rural regions. Third, whereas migration between regions increased only marginally between 1997 and 2011, commuting became much more frequent (the share of population commuting to another municipality increased from 24% to 35%), indirectly suggesting that housing market rigidities hinder interregional mobility.