



at universities, provided universities have among their teaching staff company managers under contract to do training work for periods of two or three years parallel to their management functions. Universities should also look into increasing the flexibility of their system, for instance by creating diplomas for two-year courses.

The first thing to do, then, is to re-design the public system, not with a view to privatizing it, but to re-define transparency and relations with the industrial and entrepreneurial world. This would lead to great savings in terms of resources that are currently being totally wasted.

FOR - Taking the industrial structure of Italy into consideration, what are, in your opinion, the main problems involved in training SME workers?

B.T. - In Italy this is a real problem, and it should lead to a partnership between the trade unions and enterprises both at the level of union federations and within

the various sectors. Within this partnership, territorial centres managed by the social partners could be operated to develop training schemes using programmes that would be discussed together.

This means there would have to be organizations to monitor vocational training in all industrial areas in Italy, and vocational training centres able to serve a rather large number of small and medium-sized enterprises. We have experimented and I would say that, on the whole, results are not disappointing. Italian policy-makers are gradually becoming more conscious of the fact that, within the framework of a more global economy, this is where the competitive game among enterprises and large regional territories will be played. Work may be the least mobile of assets in terms of technology, industrial investment and capital, especially between countries. But it is this very asset which constitutes the wealth of a country.

Sweden's labour market policy: A remedy for unemployment?

Why was unemployment in Sweden considerably lower than in most other European countries during the 1970's and 1980's? The discussion has focused primarily on three explanations:

- The Swedish system of central wage negotiations and agreements, which has kept real wages increase on a relatively low level.
- The macroeconomic policy and its accommodating effects caused by repeated devaluations and a strong employment increase in the public sector.
- The labour market policy with its strong emphasis on the "employment principle," which differs from the policies of many other European governments.

The present essay aims to take a closer look at the third of these explanations, the labour market policy of the Swedish government, which has enjoyed an international reputation as a particularly successful ingredient of the "Swedish model". A number of theories has been developed in recent years in order to analyze labour market programmes and their effects on aggregate wages and employment. The research has brought attention to the possibility of efficiency problems in the labour market policy. The programmes can have had such severe counteractive effects on the general employment situation that unemployment has remained unaffected or even increased. We will give an overview of the theories, report the empirical results of a number of Swedish studies in the field and discuss what can be learnt from the Swedish experiences.

"The first thing to do, ... is to re-design the public system, not with a view to privatizing it, but to re-define transparency and relations with the industrial and entrepreneurial world."



Per Skedinger

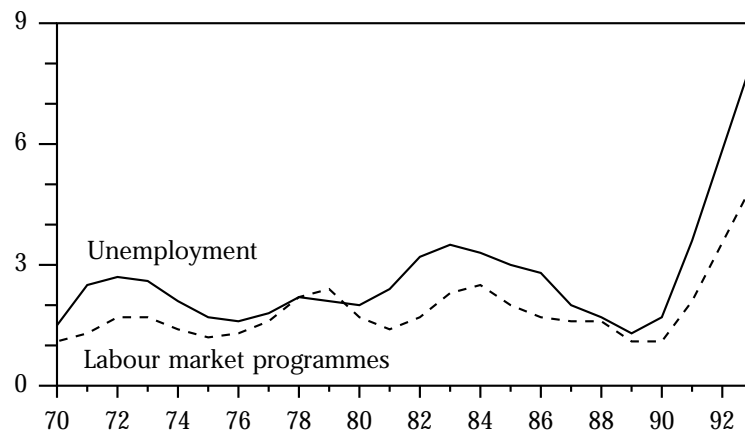
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Until the recent economic crisis, the unemployment rate in Sweden has been much lower than in most other European countries. It is a widely held belief that this impressive record to a great extent is explained by Sweden's active labour market policies. This article discusses recent research on the macroeconomic effects of these policies and argues that the alleged benefits probably have been exaggerated.



Figure 1: Unemployment and Labour market Programmes 1970-93
Percentage of labour



Sources: Statistics Sweden (SCB) and the National Labour Market Board (AMS).

Note: The labour market programmes include labour market training (excl. in-company training), relief work and special youth measures.

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“Two theories have been developed concerning the effects of labour market programmes on the general employment situation.”

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The government labour market policy consists partly of passive support to the unemployed (in the form of payment of unemployment benefits or early retirement pension), partly of a number of active measures, i.e. labour market programmes. The latter consist largely of relief work and labour market training, but also of selective measures aimed especially at young and disabled persons. The volume of active employment measures makes Sweden one of the leading states in Europe both in terms of the level of expenditures and the number of persons involved. Figure 1 shows the number of openly unemployed and the number of persons engaged in labour market programmes in Sweden during the period 1970-1993. These figures alone do not however permit the deduction that the comparatively low rate of unemployment is an effect largely of the Swedish government labour market policy.

Two theories have been developed concerning the effects of labour market programmes on the general employment situation. The first of these theories, represented among others by the British researchers Richard Layard and Richard Jackman, emphasizes the programmes' possibilities to maintain or raise the level of training in the labour force and pave the way for more efficient job search strategies. Regarded in this perspective, government labour market policy is consid-

ered to increase the size of the “effective” labour force, which in turn gives rise to greater competition for jobs, wage restraint and thus an increase in general employment. A crucial factor determining the size of this “effective” labour force is the number of long-term unemployed. As opposed to other unemployed with closer ties to the labour market, the long-term unemployed do not contribute to keep wage increases down. This may be because of low search effort of the long-term unemployed or reluctance to hire them on the part of the employers. Thus wage increases remain high also with a high unemployment rate, and unemployment as a consequence continues to increase.

The other theory, primarily represented by Lars Calmfors at the University of Stockholm, brings attention to the fact that the programmes can influence the wage negotiations between trade unions and employers so as to raise wages. The trade unions are assumed to consider the situation also of their unemployed members, a situation largely determined by the extent of unemployment and the alternative wage earning possibilities. According to this theory, the government programmes reduce the negative effects of a dismissal, thus weakening incentives for wage moderation. Exactly how much weaker these incentives get, depend on factors such as the level of benefits paid, the duration of programme participation and the extent to which programme participation qualifies for additional periods of unemployment benefits. The programmes can consequently result in higher wages, thus crowding out regular employment. The active measures are furthermore considered to weaken the job-searching incentive of the individual during the period of programme participation, which in turn results in a higher unemployment rate. Thus regular employment, should the total effect of these factors be strong enough, can be displaced to such an extent that unemployment actually increases.

The empirical knowledge of the various effects of government labour market programmes is based on both micro- and macroevaluations. The microstudies focus on the effects on wages and employment for participants in the programmes. Although research activity in this field has



been fairly intense, the results have so far not formed a clear picture. Methodological difficulties arise from the fact that programme participation rarely is a random procedure. If, for example, people entering training programmes tend to be more productive and more employable than other unemployed persons, the treatment effect of the programme will be over-estimated due to what has been termed "selectivity bias". New methods in order to handle this problem have been developed, most notably in the United States, but the results have turned out to be very sensitive to the particular method applied by the researcher.

The macrostudies attempt to determine the effects of the programmes throughout the whole economy by analysing aggregate employment and wage effects, i.e. the general consequences also for those not engaged in the programmes. Most of these latter studies have been carried out in the Scandinavian countries, which is perhaps to be expected given the strong emphasis put on active labour market policies there. Studies in other countries typically use expenditure measures of programme activity, a method which has several drawbacks (see OECD, 1993, and the references therein). For example, the number of persons involved in the programmes, not expenditure, is the appropriate measure if one wants to analyze the effects of transfers from open unemployment to programmes. The Swedish studies referred to below all make use of data on programme participation.

Tables 1 and 2 show the results of a number of Swedish macrostudies of the effects of government labour market programmes on wages and employment. A crucial part of the research in this field focuses on the question whether different types of programmes – relief work on the one hand and labour market training on the other – can be shown to have different effects. Most of the studies do not however differentiate between the programme types. The aggregate measurement used in these studies appears in the tables as "relief work + training".

The proposition that an increase in (short-term) open unemployment contributes to lower wage pressure is supported both by theory and by a wealth of empirical

literature in Europe and elsewhere. A far more controversial issue is the effects of labour market programmes on wage formation, since competing theories offer different answers. Table 1 shows the estimated wage effects of the labour market programmes at given levels on the open – and wage restraining – unemployment. A positive (+)/negative (-) effect means that an increase in the number of persons involved in programmes has a wage increasing/wage decreasing effect. A zero (0) in the table indicates that wages remain unaffected, but this also means that a transfer of persons from open unemployment to various programme participation does not result in wage restraint. It should be stressed that this result is almost as serious as if the effect had been positive. The table indicates that the major part of the studies have shown the programmes not to reduce wage pressure.¹ The Layard-Jackman theory referred to above thus seems to receive little support. In Sweden the publication of these studies has provoked an animated discussion, which is not entirely surprising since the findings depart so much from the considered opinion of economists and practitioners alike. Some of the contributions so far to the discussion are reprinted in Bergström (1993).

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"Very few studies have analyzed the programmes in terms of their effect on employment and the results are not conclusive."

¹The studies are based on a wide range of data and also employ various estimation methods. It should therefore be pointed out that the studies based on better data and/or statistical methods have not shown more favourable results for the government labour market policy. The only comparable evidence for non-Scandinavian countries is, to my knowledge, a study by OECD (1993). Using both expenditure and participation data for labour market programmes in France and Germany (as well as Sweden), the OECD finds that increased participation rates do not have a significant effect on wage increases. By contrast, more expenditure per participant reduces wage pressure. It is however not clear to what extent the expenditure data used in the report measure quality differences.

Table 1: Empirical studies of the effects of government labour market programmes on wages

Study	Programme	Effect
Calmfors & Forslund (1991)	Relief work + Training	+
Calmfors & Nymoén (1990)	Relief work + Training	0
Edin, Holmlund & Östros (1993)	Relief work	-/0
	Training	-/0
Forslund (1991)	Relief work + Training	+
Forslund (1992)	Relief work	+
	Training	-
Holmlund (1990)	Relief work + Training	0
Löfgren & Wikström (1991)	Training	0
Skedinger (1992)	Relief work	+



“It has been shown that labour market programmes can have a wage increasing effect and we cannot be certain that the measures actually have reduced total unemployment. In general, the results are however more favourable for training programmes than for relief work.”

employment and the results are not conclusive (see table 2). A research project at the Industrial Institute for Economic and Social Research (Industriens Utredningsinstitut, IUI) and the Institute for International Economic Studies at the University of Stockholm (Institutet för internationell ekonomi, IIES) is currently investigating the effects of labour market training and relief work on the total unemployment, i.e. the open unemployment and the number of persons engaged in government programmes (Calmfors & Skedinger, 1994). The study is based on regional data for the period 1965-1990 and takes the great regional variations in programme volume as well as unemployment rate into account. The study also analyses the effects of the increased emphasis on measures for youths in the 1980's for the aggregate unemployment rate. Youth are to a great extent outsiders on the labour market, and it is an interesting issue whether targeting of measures towards such a group decreases wage pressure. Measures directed at outsiders do not improve the welfare of those already holding jobs as much as policies that are neutral in this respect, and it is possible that this leads to weaker demands for wage increases. By the same reasoning, measures aimed exclusively at insiders, such as in-plant training, can be expected to have detrimental effects on wage moderation, but this was not tested due to lack of regional data. In-plant training reached a peak in the recession of the late 1970's, but since then has not been

used nearly as much as regular training programmes.

The preliminary results of this research project indicate great differences between the programmes. Relief work does not seem to contribute to increased employment, whereas labour market training shows more positive results. We are however not able to draw any particular conclusions as far as the emphasis on youth programmes is concerned.

The research of the past few years can on the whole be said to have raised a number of questions concerning the efficiency of government labour market programmes. It has been shown that labour market programmes can have a wage increasing effect and we cannot be certain that the measures actually have reduced total unemployment. In general, the results are however more favourable for training programmes than for relief work. Possible reasons for this difference are that training programmes are associated with more skill enhancement, less direct displacement effects and lower benefit levels than is relief work. This leaves us with the question of the potential risks and possibilities of an active labour market policy in the current labour market situation in Sweden, where unemployment is much higher than during the 1970's and 1980's. Strong reliance on passive labour market measures, as in many other European countries, is clearly not an attractive option.

Table 2: Empirical studies of the effects of government labour market programmes on unemployment

Study	Dependant Variable	Programme	Effect
Calmfors & Skedinger (1994)	Total unemployment	Relief work Training	+/ -
McCormick & Skedinger (1992)	Open unemployment	Relief work Training	+
Wadensjö (1987)*	Open unemployment	Youth teams	-

Note: The Wadensjö report (1987) restricts itself entirely to youth unemployment and to the effects of the programmes on the open unemployment for a specific age group. Potential effects for other groups have consequently not been considered.



As we have noted, the two "schools of thought" have their respective arguments concerning the effects of government labour market policy. These arguments should not necessarily be regarded as mutually exclusive. Obviously great attention must be paid to the possibilities of the government policy to prevent an increase in the incidence of long-term unemployment. The risk of wage inflation from such a policy is presently low, although not negligible, as open unemploy-

ment in Sweden has reached a considerably higher level than in previous years. On the other hand it is equally important to avoid locking-in effects that can arise as a consequence of high benefits in the programmes and generous possibilities of entering, and re-entering, programmes after spells of unemployment. The challenge to policy makers, in Sweden and elsewhere, is to find an optimal mix of, and to carefully design, various active and passive measures.

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