

Welfare Systems and the Management of the Economic Risk of Unemployment: Sweden

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***Comparative Welfare State Research
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Introduction

This report describes developments on the Swedish Labour Market and in Swedish Labour Market Policy during the 1990s. Part I of the report provides a picture of the situation on the Swedish labour market during the first part of the nineties, a general introduction to the basics of the system of unemployment protection and a description of the benefit system and the active labour market measures as they looked in 1995. At the end of Part I elements of the debate on labour market policies in the beginning of the nineties are presented and discussed. In Part II developments in the unemployment protection system since 1995 are presented. This section also includes a description of income packaging and net replacement rates for people receiving unemployment benefits. Finally, the overall development of the system during the nineties is assessed and discussed in Part III.

Besides providing a picture of the possibilities and economic conditions of unemployed people in Sweden, we hope to give an impression of how Sweden relates to and differs from the conditions in other countries. This includes placing Sweden in a European and a narrower Nordic context. The Nordic welfare states are often considered to belong to the same category of welfare states. There are several similarities among the conditions of the various Scandinavian welfare systems as well as welfare provisions including unemployment benefits. The following characteristics can be said to be typical for the Nordic Welfare states:

1. *A strong emphasis on active efforts*
2. *Generous income maintenance for people out of work*
3. *Low reliance on the use of means-tested benefits*
4. *Low level of unemployment*
5. *High level of labour market participation*¹

However there are also differences between the Nordic countries. Sweden was deeply affected by the economic recession in the beginning of the nineties – more than other Nordic countries except Finland. This led to a big increase of the unemployment rate and a drastic decrease of the labour market participation rate. We shall see in this report how the first three characteristics mentioned above have developed as point four and five were severely affected by the economic recession in the beginning of the nineties.

We would like to thank the following people with whom we have met and who have given us a deeper insight in matters of Swedish Labour Market Policy: Susanne Ackum-Agell and Anders Forslund from IFAU (*Office of Labour Market Policy Evaluation*); Mats Wadman and Eivy Häggström from the Swedish Ministry of Industrial Affairs (*Näringsdepartementet*) and Eskil Wadensjö from SOFI (*Swedish Institute for Social Research*).

¹ Kautto 2001: 184

Summary

The Swedish labour Market was severely affected by the recession in the beginning of the nineties. This was a big challenge to the labour market policy. The following problems prevailed.

- Because most of the Swedish voluntary unemployment insurance and all of the unemployment assistance is financed by the state, the high unemployment rate increased public expenditure drastically. This was even more problematic because Sweden, in line with Scandinavian tradition, tends to have comparably high benefit levels.
- The Swedish labour market policy is traditionally very reliant on active labour market policies. These were used during the recession, but their actual effect on unemployment has not been proved. One can rather say, that the Active Labour Market measures helped to prevent that unemployed left the labour force.
- The system in the mid nineties was arranged so that it was fairly easy to re-qualify for benefits several times. It was possible to re-qualify by participating in active measures instead of work. This was criticised as being a way of encouraging long-term unemployment.
- The OECD found that the corporative structure of the Swedish labour market policies served as a hindrance to flexibility on the labour market. Flexibility was needed in order to increase the employment rate and overcome the recession. For example wage differentials were not very big in Sweden and this meant that e.g. young people were not very attractive to employ.
- The public employment services were very much under pressure.

Changes after the mid-nineties have not reduced the corporative element of the Swedish welfare state, but they have tried to handle the above-mentioned problems, though not always in the most direct sense.

- Considering the net replacement rates of recipients of unemployment insurance and assistance, one can say that there have not been severe cut downs, but that it has become more difficult to re-qualify for benefits.
- Active measures were increased during the recession but have now been reduced and efforts are made to focus on long-term unemployed and young people in these measures.
- In the light of a programme of rights and duties for the unemployed an activity guarantee has been introduced with the aim of breaking long-term unemployment spells. Results of this cannot yet be assessed.
- The public employment services have not been subject to major reforms, but rules have become more strict and clear in an attempt to assure that everyone is treated equally. Besides, they are not subject to the same pressure as they were during the recession

Considering the labour market now, compared to during the recession the situation has improved considerably. Unemployment was down at 5.9% in 2000 compared to 9.8% in 1995. These figures might be high compared to the 3% level in the eighties, but in a European perspective they are not alarming.

Future challenges to the Swedish Labour Market Policy are to focus more on the regular labour market than on active labour market policies and benefit systems. There is need for more flexibility on the labour market and for more provisions to create jobs.

Part I

The situation on the labour market in the mid-1990s

The situation on the labour market 1990-1994

The international recession in the beginning of the 1990s affected the Scandinavian countries to very different degrees. In Sweden the crisis was worsened because of a general overheating of the economy in the late 1980s. The recession in Sweden did not come to a turn before 1993. The overheating of the economy was in part due to an expansive labour market policy, which had been pursued since the oil crises in the 1970s. This expansive policy was followed in order to keep the unemployment rate down. An element of the expansive economic policy was to devalue the Swedish crone three times between 1977 and 1982. The overheating of the economy could also be explained by a lack of coordination of some radical reforms of the labour market policy put through between 1985 and 1991. The crisis brought a very high inflation rate and put an end to this expansive labour market policy. The unemployment rate increased from 1,8% to 9,8% between 1990 and 1994. At the same time the employment rate fell by more than 10 percentage points (Table 1). Because of the bad perspectives on the labour market, labour force participation fell, especially among the young and elderly people. The crises ended the expansion of the Swedish welfare state, which had begun after the end of World War 2.²

Table 1: Employment/population ratios; Labour force participation rates; Unemployment rate, persons aged 16-64 years, Sweden 1990-1995

	1990	1991 ¹	1992 ²	1993	1994	1995
Employment/population ratio	83.1	-	75.6	72.6	71.5	72.2
Labour force participation rate	84.6	83.2	79.8	79.1	79.2	79.5
Unemployment rate (% of civilian labour force)	1.8	3.2	5.9	9.5	9.8	9.2

1. Figures from 1991 and 1992 are for the group of 15-64 years.

Source: OECD Employment Outlook; OECD Labour Force Statistics 1980-2000

When considering the rapid decrease of the employment level and labour force participation rate it is important to point to the fact that Sweden had a significantly higher employment rate than most other European countries. This can be seen as a consequence of several traits of the Swedish labour market. First of all, growth in the employment rate reflects an expansion of the public sector after the Second World War. Employment in the business sector stagnated from the beginning of the seventies, increased in the last part of the eighties, but fell drastically from 1990 to 1995.

Secondly the high employment rate can be explained by the fact that the labour market participation of women (see table 2) is very high compared to other European countries (except for the other Nordic countries). The female labour market participation rate was above 60% already in the 70s. The high female labour force participation rate has been possible because of a very big public sector, which has developed in the last half of the 20th century. The public sector has generally created many jobs in the education-, health- and social sectors. Women have occupied many of these types of jobs.³

² Arbetsmarknadsdepartementet, 1994: 7-11; Kautto 1999: 21

³ Kautto 1999: 11, 14; OECD 1996a: 75-78

Other explanations to the high employment rate in Sweden are that there are a high amount of part-time employees, and the fact that Sweden traditionally has had an extensive policy of supporting employment of handicapped and other people for whom it could be difficult to find a suitable job.⁴

Who suffered from the recession?

In most European countries, the recession in the beginning of the nineties affected the female unemployment rates more than male unemployment rates. But in the case of Sweden (Table 2), *men* were more affected by the crisis than women in terms of unemployment. The reason for this atypical development in Sweden was, that the production industry, which is a male dominated area of work, experienced the biggest setback from the recession in comparison to other sectors. After four years (from 1989-1992) of severe hardships, the production industry began to recover in 1993.⁵

Table 2: Employment/population ratios; Labour force participation rates; Unemployment rate, persons aged 16-64 years by sex, Sweden 1990-1995

	1990	1991 ¹	1992 ¹	1993	1994	1995
Men						
Employment/population ratio	85.2	-	76.7	73.1	72.3	73.5
Labour force participation rate	86.7	85.3	81.8	80.9	81.4	81.7
Unemployment rate	1.8	3.5	6.9	11.2	11.2	10.1
Women						
Employment/population ratio	81.0	-	74.5	72.1	70.6	70.8
Labour force participation rate	82.5	80.9	77.7	77.2	77.0	77.2
Unemployment rate	1.8	2.9	4.7	7.7	8.2	8.2

1. Figures from 1991 and 1992: 15-64 years.

Source: OECD Employment Outlook; OECD Labour Force Statistics 1980-2000

The recession had severe negative effects on the position of *young people* on the labour market. The Employment/population ratio for the 16-24 year olds fell by nearly 25% from 1990 to 1994 (Table 3). The labour force participation rates show very drastic differences between the young part of the labour force and the rest. Finally, the relative rise in unemployment in the two oldest age groups was bigger than for the young age group. However, already before the recession the unemployment rate was higher among the young parts of the labour force.

⁴ Arbetsmarknadsdepartementet 1994

⁵ Ibid.: 51 ff

Table 3 Unemployment rate, labour force participation rates and employment/population ratios by age, Sweden 1990-1995

	1990	1993 ¹	1994	1995
Both Sexes, aged 16-24				
Employment/population ratio	66.0	42.6	41.4	42.3
Labour force participation rate	69.1	52.1	49.7	52.7
Unemployment rate	4.5	18.4	16.7	20.6
Both Sexes, aged 25-54				
Employment/population ratio	91.6	83.1	81.9	82.6
Labour force participation rate	92.8	89.5	88.0	89.6
Unemployment rate	1.3	7.1	6.9	7.9
Both Sexes, aged 55-64				
Employment/population ratio	69.4	63.2	61.9	61.9
Labour force participation rate	70.5	66.9	66.2	67.1
Unemployment rate	1.5	5.5	6.5	7.8

1. Aged 15-24 in the youngest category

Source: OECD Employment Outlook

Many young people escaped unemployment by studying. Table 4 shows how many young people studied or were latent unemployed. The 'Other' category gives an impression of how many left the labour force.

Table 4: Young people outside of the labour force and latent unemployed, Sweden 1990-1993 (thousands)

	16-19 years			20-24 years		
Men	1990	1992	1993	1990	1992	1993
Outside of the Labour force	122	148	158	47	69	90
Studying	114	135	141	30	41	52
Other	8	13	17	17	28	38
Hidden unemployed ¹	11	19	25	2	9	18
Women						
Outside of the Labour force	110	132	143	57	65	93
Studying	102	120	129	32	42	58
Other	8	12	14	21	23	35
Latent unemployed ¹	11	20	26	2	5	14

1: e.g. participating in active measures

Source: Arbetsmarknadsdepartementet 1994: 66

One reason for the big rise in unemployment among the young has to do with the fact that young people were entitled to relatively high wages in spite of their lack of experience. Due to a law on job-security it was also difficult to fire them. These circumstances meant, that young people were less attractive to employ than older more experienced members of the work force. The biggest fall in labour force participation was seen among 16-19-year-olds. Young people in general had more, but shorter periods of unemployment than older people, but the length of these increased during the recession period⁶

Another group of people that ran in to big difficulties during the recession was the *immigrants*. Until the mid 1970s immigrants actually held a relatively strong position on the Swedish labour market. During the 80s their situation began slowly to deter. Unemployment among immigrants did not differ significantly from the overall unemployment in 1990. In the beginning of the 90s immigrants experienced a drastic deterioration of their conditions on the labour market. Some argue, that this situation came about because the general level of skills among immigrants is lower than that among Swedes. However, this does not seem to be sustainable empirically⁷. Another explanation has to do with changed reasons for immigrating. The composition of the immigrant-group changed by the end of the 80s and in the beginning of the nineties. More and more of the new coming immigrants were political refugees (or relatives to refugees). Previously, most immigrants immigrated with the aim of succeeding on the Swedish labour market. Until the 1970s immigrants were recruited as labour force, and most of them were from other European countries. Refugees have other more emergent motives to immigrate. They also have fewer opportunities to return to their country of origin in case they do not succeed on the Swedish labour market. The problems for immigrants on the labour market in the 90s can also be explained from the fact that several traditional immigrant-jobs have disappeared over time. The number of jobs, which do not require good Swedish language skills, has also decreased. Finally, explanations with an outset in general problems of discrimination – especially of those immigrants who have arrived recently – cannot be dismissed.⁸

Table 5 Unemployment, labour force participation rates and employment/population ratios by educational attainment for persons aged 25-64, Sweden 1994-1995

		Both Sexes			Men			Women		
		Less than upper secondary education	Upper secondary education	Tertiary education	Less than upper secondary education	Upper secondary education	Tertiary education	Less than upper secondary education	Upper secondary education	Tertiary education
1994	Employment/population ratio	78.6	83.3	89.2	81.8	83.7	89.2	74.8	83.0	89.2
	Labour force participation rate	86.2	90.2	92.5	90.6	91.9	92.9	81.0	88.5	92.2
	Unemployment rate	8.8	7.6	3.6	9.6	8.9	4.0	7.7	6.2	3.3
1995	Employment/population ratio	77.7	83.5	89.0	81.6	84.7	88.8	72.9	82.3	89.2
	Labour force participation rate	86.4	91.4	93.2	91.3	93.6	93.7	80.5	89.2	92.7
	Unemployment rate	10.1	8.7	4.5	10.6	9.6	5.2	9.4	7.7	3.8

Source: OECD Employment Outlook

⁶ Ibid.: 20-65

⁷ Statistisk Centralbyrå 2000

⁸ Edin 2001; Arbetsmarknadsdepartementet 1994: 55-60

As can be seen from Table 5 the lower educated part of the labour force was most affected by the crisis with unemployment rates in 1995 above the average (9.2% in 1995, Table 1). Only workers with tertiary education kept a fairly low unemployment rate.⁵⁹

Long-term unemployment was generally a very big problem in the beginning of the nineties (See Table 6). The biggest degree of long-term unemployment occurred among the *older unemployed*. This can partly be explained from the fact that the public employment services focused their efforts on young people but also by the fact, that older people found it difficult to acquire new skills and knowledge at the same speed as their younger colleagues. The fact that older people¹⁰ are closer to pension age than younger people also makes them less attractive to employ¹¹.

Table 6: Incidence of long-term unemployment as a percentage of total unemployment, Sweden 1990-1995

	Total		Men		Women	
	6 months and over	12 months and over	6 months and over	12 months and over	6 months and over	12 months and over
1990	22.2	12.1	22.2	12.3	22.2	11.8
1991	17.6	4.2	19.2	4.6	15.2	3.7
1992	25.9	8.3	26.9	8.7	24.0	7.5
1993	32.0	10.9	34.1	12.1	28.6	9.1
1994	38.5	17.3	40.5	19.4	35.3	14.1
1995	45.6	27.8	49.3	31.4	40.8	22.9

Source: OECD Employment Outlook

Real wages became very rigid in the beginning of the nineties. Before this, they would usually fall in response to increased unemployment. They did fall in the early nineties, but although unemployment was still high, wage levels increased considerably in the mid-nineties.¹²

Finally, problems of mismatch between vacancies and unemployment began to increase in the beginning of the nineties. Structural unemployment was around six or seven percent by 1995 according to OECD measures. We shall return to problems of mismatch in Part II.¹³

To sum up, the beginning of the nineties brought an enormous amount of challenges to the Swedish social policy and labour market policy. We have pointed to certain groups in the labour force, whose conditions on the labour market deteriorated more than others, but the recession was a setback to the whole of the labour market. The shock from the recession was big, especially because Sweden during the eighties had become used to a very low unemployment rate around 3%. The high unemployment rate had an especially severe effect on the Swedish economy compared to other European countries because of the universalistic tax-financed character of the Swedish Welfare model. The model implies, that in times of crisis expenditure on social security measures increases while income from taxes decrease and it becomes difficult to finance the social benefits.

⁹ OECD 1996a: 80

¹⁰ Older long-term unemployed were usually not offered participation in active labour market measures. When participating in an active labour market measure, you are not counted as unemployed.

¹¹ Arbetsmarknadsdepartementet, 1994: 51

¹² OECD 1996a: 80-81

¹³ Measured by use of NAWRU: the open unemployment rate where wage growth stabilises or by the Okun Curve, where the relationship between open unemployment and capacity utilisation is measured (OECD 1996a: 81-82)

Basic features of the Swedish unemployment protection system

Organisational and Institutional features

The Swedish unemployment benefit system consists of two different schemes. One is insurance-based and the other is an entirely state-funded benefit.

The Swedish unemployment insurance scheme (as well as the Danish and Finish schemes) is based on the so-called Ghent system. This system implies, that the insurance schemes are tax subsidised, membership of an unemployment insurance fund is voluntary and the schemes are affiliated to trade unions¹⁴. The affiliation of the unemployment insurance schemes to the trade unions denotes, that the schemes are based on solidarity among employees in professionally limited areas. This corporative element of the unemployment insurance system falls in line with the general Social Democratic path to welfare, which has been followed in Sweden and it is not (even though the insurance element might lead one to think so) a liberal element of the Nordic Welfare model¹⁵.

Unemployment insurance benefits give high earnings-related coverage for members. They are wage-dependent and time-limited.

Unemployed, who do not fulfil eligibility criteria for unemployment insurance benefits can receive a time-limited basic benefit, which is state financed and operated by the Public Employment Service. Until 1998 this benefit was called Cash Labour Market Support (KAS). After this it was named Basic Insurance (Grundförsäkring).

People, who exhaust possibilities of receiving unemployment benefits, have the possibility of receiving Social Assistance. We shall not describe the system of social assistance in detail in this report because it is not an integrated part of the unemployment protection system.

Coverage

All employed people including self-employed can hold membership of an unemployment insurance fund. As can be seen in Table 7 the major part of the labour force held membership of an unemployment fund all through the nineties. The increase from 78% in 1990 to 89% in 1997 can be explained from the recession because more people felt threatened by unemployment and therefore subscribed to unemployment insurance. It is obvious that in spite of the voluntary basis of the unemployment insurance system, that most people want to be insured. This can also be explained by the fact that membership fees for the unemployment funds are very low compared to other countries. People, who do not hold membership of an unemployment insurance fund, are typically people in jobs with very low risk of unemployment (e.g. civil servants), or people who have low affiliation to the labour market and cannot fulfil the work conditions in the unemployment benefit system.

¹⁴ Kautto 2001: 202

¹⁵ Nordisk Ministerråd 1999: 65,95 ; Palme & Wennemo 1998: 11

Table 7: Unemployment insurance funds, numbers and members, Sweden 1990-2000

Year	Number of Unemployment Insurance Funds	Number of members (Thousands)	In Percent of labour force
1990	42	3 556	78
1991	42	3 575	79
1992	42	3 668	83
1993	43	3 743	87
1994	40	3 756	88
1995	40	3 773	87
1996	40	3 798	88
1997	40	3 792	89
1998	40	3 803	89
1999	40	3 796	88
2000	39	3 783	87

Source: Regnér & Wadensjö 1999: 9; Regeringens proposition 1999/2000: 139: 47; Statistisk Årsbok för Sverige 2001; Arbetsmarknadsstyrelsen 2001

Table 8 shows how many of the unemployed received compensation and insurance during the 90's. The part of the unemployed who do not receive benefits within the unemployment cash benefit system has decreased over the nineties. 20% without compensation in 1998 is however a relatively big proportion. As mentioned, those who do not receive compensation in the unemployment cash benefit system can receive social assistance.

Table 8 Unemployed with/ without compensation and insurance, Sweden 1990-1998

	Part of the unemployed with/without compensation, % of unemployed		
Year	With unemployment insurance,	With KAS/ basic benefit	Without compensation
1990	63	8	29
1991	62	12	26
1992	67	12	21
1993	66	11	23
1994	67	10	23
1995	68	7	25
1996	71	8	21
1997	71	7	22
1998	72	8	20

Source: Regnér & Wadensjö 1999: 9; Regeringens proposition 1999/2000: 139: 47; Statistisk Årsbok för Sverige 2001; Arbetsmarknadsstyrelsen 2001

Financial organisation of the unemployment insurance system

The current financial organisation of the unemployment insurance system and the KAS was founded in 1989 and has more or less the same structure today.

The unemployment insurance benefits are financed through state contributions and membership fees. Membership fees are very low. In 2000 the average yearly membership fee was SEK 1035 or

109 Euro.¹⁶ One aim of the financial organisation is, that the state funding of the schemes should reduce the inequality of the distribution of economic burdens among the unemployment funds. The structures of the labour market mean, that some unemployment funds are more exposed to unemployment than others. State contributions have increased during the years since the system of financing was established. Over 90% of benefit costs are publicly financed today.¹⁷

Unemployment funds pay a 'financing-fee' to the state. The number of members in the funds and the wage-level of those members who become unemployed determine the financing fees. The fee is paid per member and calculated on the basis of the average unemployment benefits paid per member of the given unemployment fund. In 1999 the financing-fee was 131% of the average unemployment benefit paid per member. The government decides the maximum and minimum levels of unemployment insurance benefits and benefits are taxed in the same way as ordinary income. Membership fees to unemployment insurance funds and social contributions are also paid from the benefits.

Until 1989 the unemployment insurance funds had to create funds of a certain size in order to be flexible and handle variations in unemployment levels. In 1989 it was made illegal for the unemployment insurance funds to create funds. After this, the surplus of an annual account must be transferred into the budget of the next year.

In order to even out economic burdens, there is a system of 'equalising contributions' (*Uljämningsbidrag*) regulated by law. The equalising contributions are financed through a general equalising fee (in 1999: 3% of highest unemployment benefit per member). Contributions are paid to help small funds and funds with high unemployment rates.

Membership fees should (together with equalising contributions) finance the administration of the unemployment funds and the financing fees¹⁸.

Financial organisation of the KAS (from 1998: Basic insurance)

The flat rate cash benefit used to be financed through a labour market fund, which receives money from employers' and employees' fees. The fund developed a big deficit in the beginning of the 90s (1992/3: 24 billion and 1993/4: 54 billion SEK.) as a consequence of the dramatic rise of expenditure during the recession. The deficit was financed by state loans. The flat rate cash benefit system was integrated in the administration of the unemployment insurance funds in 1998, when it changed name to basic insurance. The employers and employees now pay fees to the state and the state finances the basic insurances. The government decides the level of the KAS/Basic Insurance benefits. Benefits are taxed in the same way as normal income and social contributions are paid from them.¹⁹

¹⁶ Arbetsmarknadsstyrelsen 2001: 35. The figure concerns members of unemployment insurance funds who are also members of the collective organisation (the unions) in relation to the fund. The average membership fee for those who are not collectively organised is a bit higher: 1204 kr. Or:127 Euro.

¹⁷ OECD 2001a: 77

¹⁸ Näringsdepartementet, 1999a: 53-56; Näringsdepartementet 1999b

¹⁹ Regeringens Prop. 1999/2000: 139: 45-47; Arbetsmarknadsdepartementet 1994: 122-3

Organisation of the National Labour Market Administration (*Arbetsmarknadsverket* AMV)

The National Labour Market Administration (AMV) carries out parliamentary decisions concerning labour market policies. The AMV consists of the Labour Market Board (*Arbetsmarknadsstyrelsen*, AMS) and 21 county employment councils (*länsarbetsnämnd*) (In each of the Swedish counties). The county employment councils cover employment-counselling offices (*Arbetsförmedlingen*), Labour market institutes (*Arbetsmarknadsinstitut*, AMI) and Work life services (*Arbetslivstjänster*). These authorities organise and provide employment-counselling and Active Labour Market Measures to prepare people for work such as job-search guidance, education, rehabilitation measures with the aim of helping people back on to the labour market and employment creating measures.

The Labour Market Board (AMS) is the central administrative authority for general labour market questions. The main task for the AMS is to lead, coordinate, monitor and develop the labour market policy in the country, to set up new guidelines for the county employment councils, to follow up on their work and to spread the available resources. The AMS is also the chief authority for the 'county employment councils'. The AMS includes a delegation, which monitors the development of the unemployment insurance system and takes decisions about unemployment funds in questions of principle. Until 1998 it also decided about rights to KAS in special cases. Until 1992 the AMS and the county employment councils were lead by tri-partite cooperation between the labour market parties and representatives of the state (in the case of the AMS) and the county (In the case of the county employment councils). In 1992 the Swedish Employers Organisation (SAF) decided not longer to be represented in the AMS and in the leadership of the county employment councils. In the same year the state monopoly of work counselling, which had existed since 1930 (though not fully in force before 1968), was abandoned thereby giving room for private initiatives. The AMS also monitors private employment agencies.

The county employment councils function as authorities for general labour market questions in the counties. Their tasks are to coordinate, lead and develop the work in the counties. Each County employment county should have a delegation working for employment directed rehabilitation measures and a delegation working on employment counselling.

Employment counselling offices and labour market institutes are local organisations, which have to implement the official labour market policy and work as service-institutions for businesses as well as for employees. About 15% of the labour market institutes were in 1995 specialist counsellors where you with no waiting time can receive information about the labour market. Together with the Employment counselling offices, the labour market institutes have to find work to jobseekers with handicaps and to give work-directed rehabilitation. In case of unemployment you have to register as unemployed with the employment offices if you want to receive benefits. The employment offices report unacceptable behaviour and other information relevant to the payment of unemployment benefits to the unemployment insurance funds.

Finally, the work life services are duty-financed. Insurance funds, businesses, authorities and other organisations can by employment directed rehabilitation services and preventive measures for people who are employed²⁰.

²⁰ Olli, 1996: 72-83; Bergeskog 1998&1999

The benefit System in 1995

We shall now describe the unemployment cash benefit system in detail as it looked in 1995 in terms of eligibility criteria, benefit levels and coverage. We shall also describe the financing of the systems.

The Unemployment Insurance system

In 1995 eligibility criteria for the Unemployment insurance were: membership of an unemployment insurance fund for at least 12 months or, if the person was self-employed, 24 months (membership conditions). The work condition was: 80 days of work during the preceding 12 months. These 80 days could only be spread over 5 months. Only days of at least 3 hours of work were counted. Participation in certain active labour market measures was counted as equivalent to work²¹. The benefit period was 300 days. If the insured was more than 55 years old the benefit period was 450 days (Table 9).²²

²¹ Active Labour Market Measures, which were counted as equivalent to work were: labour market training and employment-rehabilitation (*yrkesinriktad rehabilitering*). See the paragraph about active labour market measures for more information.

²² Arbetsmarknadsdepartementet 1994: 97, 117-118; Hansen 2000: 12-13; Olli 1996: 34-36

Table 9: The Swedish Unemployment Insurance System 1990-1995

	1990-1993	1994	1995
Institution	Unemployment insurance funds	Unemployment insurance funds	Unemployment insurance funds
Membership	Voluntary	Introduction of compulsory clause	Voluntary again, compulsory clause abandoned
Age limit for entitlement	16-64 years	16-64 years	16-64
Waiting period	None	5 days	5 days
Benefit period	For those <55: 300 days, for those >55:450 days	For those <55: 300 days, for those >55:450 days	For those <55: 300 days, for those >55:450 days The
Work conditions	Four months of work in the last 12 months before unemployment Or participation in certain Active Labour Market Measures for the same period	From July 1 st : General conditions: During the last 12 months before unemployed, the insured must have worked: 1) at least 75 hours per month for 5 months 2) at least 65 hours per month for 10 months Special condition: those who did not fulfil general work condition could count participation-period in certain active measures as work and thereby qualify for insurance	Rules about general/special conditions were abandoned, but the certain measure which give right to a new period of compensation still count. Four months of work in the last 12 months before unemployment Or participation in certain Active Labour Market Measures for the same period
Membership condition?	12 months (24 months for self-employed)	None (Insurance mandatory)	12 months (24 months for self-employed)
Contribution condition	No	General social contribution should be paid for at least 12 months during the last 24 months	No
Possibility of re-qualifying for another benefit period	Yes, if work condition is fulfilled again	-	Yes, if work condition is fulfilled again
Benefit taxable?	Yes	Yes	Yes
Existing insurance fund for self-employed	Yes	Yes	Yes
Conditions for unemployment insurance funds	1500 members	10.000 members	10.000 members

Source: Nososco 1991-1999; Olli 1996

There were 5 waiting days, and the replacement level was at 80% of former income. The maximum benefit per day in 1995 was 564 SEK or 59 EUR (see table 10).

Table 10 Benefit-levels for Unemployment Insurance and KAS, Sweden, 1990-1995

Year	Compensation systems, Max./Min. Compensation		Cap: Annual wage giving maximum compensation, SEK/EURO	Level of Compensation (% of former income five days per week)	Average benefit, incomerelated unemployment insurance, SEK/EURO
	Min. benefit level per day, SEK/EURO (KAS/Basic-Benefit)	Max. benefit level per day, SEK/EURO (Unemployment Insurance benefit)			
1990	174 / 18	495/ 52	143000/ 15053	90	402/ 42
1991	191/ 20	543/ 57	156867/ 16512	90	445/ 47
1992	198/ 21	564/ 59	162933/ 17151	90	478/ 50
1993	210/ 22	564/ 59	183300/ 19295	90	476/ 50
1994	245/ 26	564/ 59	183300/ 19295	80	458/ 48
1995	245/ 26	564/ 59	183300/ 19295	80	461/ 49

Source: Regnér & Wadensjö 1999: 9; Regeringens proposition 1999/2000: 139: 47; Statistisk Årsbok för Sverige 2001; Arbetsmarknadsstyrelsen 2001

Compared to international levels, the unemployment compensation-periods were relatively short in Sweden²³. An underlying logic of the system is, that benefit levels are fairly generous, but that conditions for entitlements are relatively strict and benefit periods are short in order to create incentives for the unemployed to seek work. Studies point to a connection between on the one hand people's job search-procedure and what wage-level they are willing to accept when accepting a job-offer (*reservationslön*), on the other hand the length of compensation period²⁴. The shorter the compensation period the more intense the job search procedure is and the lower wage-level is accepted²⁵. In case someone turned down a suitable job-offer or with no valid reason left work he or she could be cut off from benefit for a certain period depending on the expected length of the work in question. From 1990 the expulsion period was 25 days²⁶.

Cash Labour Market Support (Kontant Arbetsmarknadsstöd, KAS) in 1995

The KAS was a flat rate, time limited benefit targeted to people who did not hold membership of an unemployment insurance fund, who did not fulfil membership conditions for unemployment insurance, or who were insured but could not receive insurance for other reasons (e.g. too old to receive insurance). In 1995²⁷ the eligibility criteria were as follows (see table 11): the recipient had to be between the age of 20 and 64, be able to work for at least 17 hours per week, seek jobs through the public employment office and not be able to find suitable work. There was a work condition of five months of work over 12 months during the last 2 years, at least 75 hours per month. KAS was given five days per week. There was a waiting period of five days (for self-employed: two months during the last 6 months). The KAS was receivable for 150 days for those below 55 years of age and 300 days for those between 55 and 60 years of age. For those over the age of 60 the benefit period was 450 days. A recipient could be excluded from benefit for 20 days if he/she left work with no acceptable cause, because of bad behaviour, if he/she turned down a suitable job offer or in other way

²³ OECD 1999: 14

²⁴ Nordisk Ministerråd 1999:55

²⁵ Arbetsmarknadsdepartementet 1994

²⁶ Olli 1996: 33-34

²⁷ The system was the same from 1990-1995 except from a short period in 1994, where it was integrated in the unemployment insurance system. This period will be described in the section on the debate in the mid-nineties.

made sure that a job offer did not appear. KAS was limited by pension age: 65 years. Part-time workers could only receive KAS for 150 days.²⁸

Table 11 Cash benefits for non-insured individuals 1995

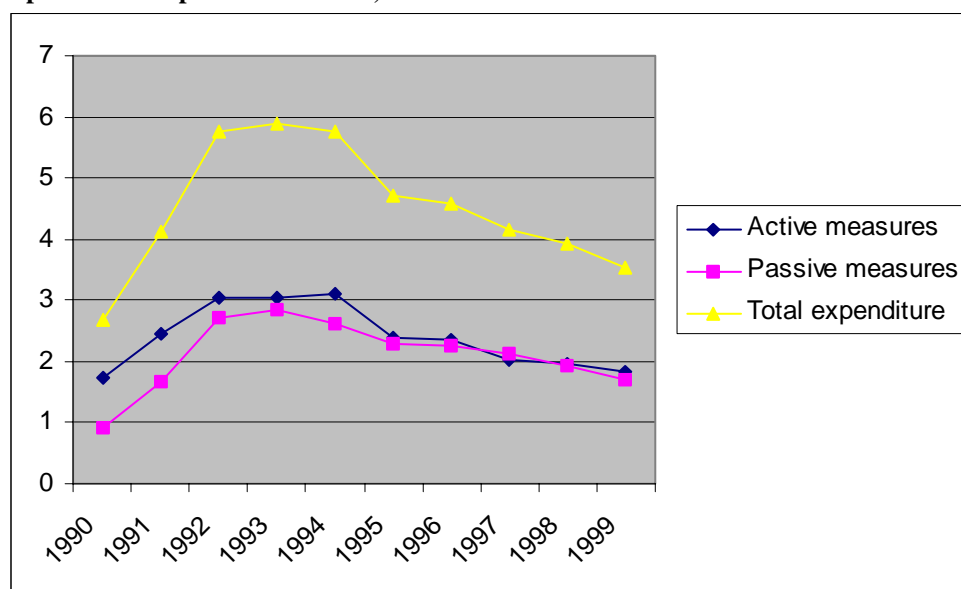
	1995
Name	KAS
Target group	Unemployed who are not members of an unemployment insurance fund.
Age limit for entitlement	20-64 years
Waiting period	5 days (for self-employed: two months during the last 6 months)
Maximum benefit period	From 20-55 years of age: 150 days From 55-60 years old: 300 days From 60-64 years old: 450 days
Work condition	5 months of work over 12 months during the last 2 years, at least 75 hours per month
Membership condition	None

Source: Nososco 1991-1999; Olli 1996

The balance between active and passive measures

Sweden was the pioneer country when it comes to the use of Active Labour Market Policies (ALMP). Active measures have been a central feature of the system since the 1950s. This tradition in combination with the remarkably low unemployment rate, which was seen in Sweden before 1990, has often led to the conclusion, that active labour market policies are very effective in bringing down unemployment levels. This makes it particularly interesting to consider how well the Swedish approach has coped with the recession in the beginning of the nineties. The question is how the Swedish combination of ALMP, relatively high benefit levels and short entitlement periods is sensitive to market trends.²⁹

Figure 1: Total Public expenditure on measures for unemployed; Public expenditure on active measures, Public expenditure on passive measures, Sweden 1990-1999



Source: OECD social expenditure database; for the years 1998 and 1999 OECD-employment outlook was used. The calculation of these figures might vary from the OECD social expenditure database.

²⁸ Olli 1996: 50-55

²⁹ OECD 1996a: 101-105; OECD 1996b: 36-37

Figure 1 shows, that the Swedish public expenditure on active measures was higher than expenditure on passive measures until 1995. This tendency has evened out by the end of the 90s. From 1990 to 1995 public expenditure on any labour market measures increased dramatically from 1.11 % of GDP in 1989-90 to 5.52% of GDP in 1994-95. Expenditure on active measures increased from 1.69% in 1990-91 to 2.99% in 1994-95, reaching its peak in 1992-93. In comparison, passive measures increased from 0.88% of GDP in 1990-91 to 2.53% in 1994-95. Expenditure on active measures increased by 77%, while expenditure on passive measures increased by 188%. This indicates that the initial attempts to handle unemployment were based on passive measures. Although there has been a very big increase in the number of active possibilities, they have not been able to keep up with the rising unemployment³⁰.

The introduction of a range of new active measures reduced long-term unemployment at the time of the crisis. Due to the eligibility criteria, they also made sure that very few ran out of unemployment insurance, because it was possible to re-qualify several times for unemployment benefits by participating in active labour market measures. If you include the hidden unemployment, the Swedish unemployment rate would be close to the level of the EU countries at this time³¹.

Active labour market measures

Initial attempts to handle the crisis concentrated on lowering the inflation rate rather than concentrating on the unemployment. It was in a sense an untraditional approach because the Swedish unemployment protection scheme and ALMP was very developed³². When the inflation rate gradually began to fall Sweden still faced big unemployment problems and therefore went back to the so-called 'Work approach', which has become typical to follow in the Scandinavian countries. The underlying principle is, that all possibilities of making an unemployed person self-sufficient through employment should be exhausted before he or she relies solely on passive benefit reception.³³

ALMP usually refers to measures, which work to qualify participants so that they can become more attractive labour force and thereby become able to find employment. ALMP can be directed towards the supply side as well as the demand side of the labour market. The supply-directed ALMPs concentrate on providing better qualifications among the unemployed. The demand side of the ALMP usually concerns subsidies to the employers so that they want more labour force.³⁴

Active measures in 1995

Supply affecting measures

In 1995 the types of supply affecting active labour market measures were: *Vocational Training* (*Arbetsmarknadsutbildning*), which was usually directed at a certain type of employment, *Education on the labour market* (*Företagsutbildning*) where the employer had the responsibility of improving the skills of the person, *Educational leave* which implied that an unemployed person could replace a person who was on educational leave. The employment offices chose the participants, but the employers had to pay part of the wages. The employers did not have to pay for education of the person on leave³⁵, *youth apprenticeships* giving young people under 25 years of age the possibility

³⁰ Arbetsmarknadsdepartementet 1994: 122-23

³¹ Ibid.: 61-62

³² Johansson, Lundborg & Zetterberg 1999:2-4

³³ Kautto 1999: 136

³⁴ Regnér & Wadensjö 1999: 11-12

³⁵ Ibid.

of gaining experience on the labour market and thereby improving their competitive abilities. It was the intention that all young people who could not find work or any other suitable measure should be given an apprenticeship. Thereby the youth apprenticeship was thought as a last possibility of preventing long-term youth unemployment³⁶

Work-life development (Arbetslivsutveckling ALU) gave unemployed the possibility of partaking in activities while receiving education-subsidies. A basic condition was that the ALU-arrangements should *not* replace work on the regular labour market and thereby disturb competition. Finally the Labour Market Institute (Arbetsmarknadsinstitut) gave job seekers help and support to find a job and to make individual choices.³⁷

Demand-affecting measures

Demand affecting measures in 1995 were: *Subsidised employment* for unemployed for 6-12 months, usually in the public sector (*beredskabsarbete*), *Support for recruitment* (*Rekruteringsstöd*) and *support for self-employment* (*Starta-eget-Bidrag*) which helped people financially to start up their own business. The support for self-employment could also be given to people who were not unemployed, but who were in the risk of becoming unemployed.³⁸

During the period of recession traditional demand affecting- measures were not used so much. Instead the supply-oriented and competency-improving measures had priority. One reason for this was, that the municipalities very often were the employers in the demand affecting measures. Due to the recession, the municipalities carried out general cut downs and couldn't afford to employ people in such measures. The support for self-employment had a high priority and showed very good results.³⁹

Since the 80s there has been focus on helping handicapped people to find a job. Focus has especially been on young people on early retirement pension or sickness benefit and school-pupils. These people have received guidance, apprenticeships, etc. The help for measures aiming at handicapped people are economically motivated by distributional politics. This means, that they have had more or less the same level during the years. This stands in contrast to the other measures, which are dependent on market trends.

Special measures for handicapped people in 1995 were subsidies for employers to compensate for the lower production level, when a handicapped person is employed, and to give an incentive to employ handicapped people. Another measure was compensation for effects of handicaps through: contributions to aids and appliances. There are also job-creating measures such as employment with wage-subsidies, protected work by public employers and support for self employment⁴⁰

³⁶ Arbetsmarknadsdepartementet 1994: 108-9

³⁷ Ibid.: 112-114

³⁸ Ibid.: 117-118

³⁹ Ibid.: 15

⁴⁰ Ibid.: 119-122

The nature of the debate

The structure of the Swedish unemployment insurance system has generally always been the object of a lot of discussion. Naturally the debate became even more heated as the country suddenly experienced mass-unemployment. Central issues for the unemployment benefit policies in the beginning of the nineties were:

- Due to the rapid increase in the number of unemployed people it became problematic to finance unemployment benefits.
- Problems of continued re-qualification for benefits. The conditions for re-qualification to benefits allowed that some people could go from being passive unemployment benefit recipients, to participating in an active labour market measure and thereby qualify to become passive recipients of unemployment benefits again.

This section first considers some attempts to create a mandatory insurance system in the beginning of the nineties. After this, other parts of the debate in the mid-nineties are described including recommendations given by the OECD.

Attempts to create a mandatory unemployment insurance system

When the crisis developed Sweden was governed by a right wing coalition. This coalition was in power from 1991 to 1994. From 1994 till now, there has been a social democratic government. The above mentioned problems for the unemployment benefit policies led the right wing government to introduce a mandatory insurance system in July 1994, which integrated the KAS in to the unemployment insurance scheme. The right wing government wanted to change conditions for re-qualification to a new period of unemployment benefits in order to limit possibilities of circling between active labour market measures and benefit-periods.

In order to reduce public expenditure on unemployment benefits several steps were taken: a social contribution of 1% of personal income was introduced from January 1st, 1994. This contribution replaced the unemployment insurance membership contribution, which had been much lower. The cash-compensation rate was lowered from 90 to 80 percent of previous income and a waiting period of five days was introduced.

There was a membership condition of 12 months during the last 24 months (Table 9). The work condition was split in two: a *general* and a *special* condition of work. The *general* condition was five months of work during a period of 12 months prior to the unemployment period. Only months in which the person had worked for at least 75 hours were included. Alternatively, the general condition of work could be fulfilled if the unemployed had worked for at least 65 hours per month for 10 months during the last 12 months. The *special* condition of work concerned unemployed people, who did not fulfil the general conditions. These people could be eligible for unemployment benefits if they had participated in active labour market measures or cared for a person at home for the same period of time, as required by the general conditions. In order to prevent circling in the system between active measures and unemployment insurance pay the jobseekers had to fulfil the general condition of work if they already had received a period of unemployment benefits on the basis of the special conditions. The benefit period for those over 55 was restricted to those between 55 and 60 years of age as part of these reforms. The benefit-periods for those who fulfilled the conditions were equivalent to those before the reform: 300 days for those under 55 years of age or 450 days for

those over 55 years of age. A benefit period based on the special conditions could be no more than 300 days irrespective of age⁴¹.

The right wing government's attempt to make the unemployment insurance compulsory was a big issue during the election campaign in 1994 and the social democrats promised again and again to change the restructuring of the unemployment insurance if they won the election. The mandatory insurance system was very quickly abandoned, after the Social Democrats won the general election. By January 1995 unemployment insurance was voluntary again and practically all conditions were back to the same shape as before the reform. The problem of continuous re-qualification for benefits by participation in active measures has not disappeared today. The issue is still central and reforms in the last half of the nineties have aimed at reducing this effect. These will be described in part two.

Influence from the EU

The debate about mass-unemployment in Sweden was partly shaped by the debates in the other European countries. Naturally questions of the good and bad sides of membership of the EU were included in these discussions.

Although Sweden did not join the EU until 1995 the debate on labour market policy was influenced by the European situation, and it is obvious that several of the active measures, especially those supporting skill-development, are very much in line with the concept of employability, but one should note that this focus is not that new in Sweden because of its long tradition of ALMPs.

Some saw a change in the labour market policy as necessary in order to support a Swedish EU-membership. The leading political parties saw membership as something worth striving for political reasons but it also included a demand of matching the economic policy to that of the EU member countries. Another view was that membership of the EU was a precondition for breaking the high inflation rate⁴²

Discussing the Ghent Model

Discussions also concerned the good and bad sides of letting labour unions administrate the unemployment insurance as well as the ongoing issue concerning the funding of the unemployment insurance funds. Questions have concerned whether it is reasonable that the insurance funds were (and are) heavily state subsidised and connected to the unions because some non-union members might not want their tax money to be administered by unions. This is coloured by political differences: the right wing criticises the influence of the labour unions. Considering employers fees the employers in reality pay the most of the unemployment insurance, and the state pays most of the active measures. Questions are raised about whether this is reasonable. It should be noted that the employers' contributions are paid over wages and therefore also can be seen as employee contributions.⁴³

⁴¹ Palme & Wennemo 1998; Olli 1996; Arbetsmarknadsdepartementet 1994

⁴² Johansson, Lundborg & Zetterberg, 1999: 2ff

⁴³ Palme & Stenberg, 1998: 23

OECD recommendations

The OECD was also concerned that the high level of unemployment in Sweden would be persistent and that the possibility of re-qualifying for benefits by participation in active measures would keep some people out from the labour force. It was argued, that the traditional Swedish approach could not be continued. Employment growth would have to rely on an expansion of the private sector rather than on the public sector. The OECD gave several recommendations with the aim of making the labour market more flexible and easier for private businesses to get by in. The recommendations generally challenged the universal and corporative nature of the Swedish welfare state.

First of all the OECD criticised high non-wage labour costs, taxes and too much focus on the public sector in terms of education and resources. It was found, that high taxes on labour should be reduced because they were seen as barriers to the expansion of the business sector. In combination with high wage floors determined by collective agreements and the high replacement rates of the unemployment insurance and flat rate benefits the high taxes depressed job creation. This statement challenges the universal approach of the Swedish welfare state because it demands a decrease in (tax financed) public expenditure.

Secondly the OECD criticised low wage differentials. Due to the role of the social partners wage differentials were low in Sweden. The OECD found, that the social partners should open up for a wider income distribution ensuring flexibility of wage costs. It was hoped, that a decrease in wage differentials would create better chances for the long-term unemployed and the inexperienced youth to find a job because they would become more attractive to employ. The small wage differentials were also seen to decrease incentives to achieve higher education levels and gave problems with high reservation wages.

Secondly the OECD recommended, that the replacement rates of the unemployment benefits should be lowered because high replacement rates increase reservation wages and serve as a disincentive to job search in combination with high income taxes.

Certain job-security provisions were also criticised by the OECD because they reduced flexibility on the labour market. It was recommended that job-security provisions were reduced.

A reorganisation of the financing of unemployment insurance benefits was also recommended. Either the financing of unemployment benefits and ALMPs should be moved to the unemployment insurance funds or the administration of the unemployment insurance benefits should be placed with the Public Employment Service. This was suggested in order to increase the effectiveness of the job-broking procedures.

Recommendations concerning the ALMPs focused on reducing the scope of them. The ALMPs had come under pressure during the crisis and the OECD found, that they should be targeted more at job broking and enforcing job availability criteria. In order to avoid circling between active and passive measures, the OECD recommended, that participation in ALMPs should not allow the unemployed to receive benefits for more than three years.

The OECD also recommended improvements concerning the skills and competences of the labour force. It was found, that the younger generation lacked incentives to seek education. School-to-work transitions should be strengthened e.g. by making more use of apprenticeships.

Finally product and market competition should be enhanced giving way to the private sector and the entrepreneurial climate should be strengthened⁴⁴.

Critique of the Public Employment Service

The organisational structure of the Swedish labour market policy and the efficiency of it have generally been subject to a lot of critique. The regional structure has had the consequence that employment offices in different localities have tended to administer the rules very differently. The AMS has been criticised for lack of clarity in structure as well as in the economic management. Issues of responsibility and power of the municipalities versus the state have also occurred. Finally, the amount of different active measures, have been criticised for confusing the possibilities for the unemployed and for causing problems, because certain measures imply a risk that unemployed get jobs, e.g. by the help of wage-subsidies, which other people would have got had there not been this possibility. When criticising the organisational structure and the side-effects of its complexity it should be kept in mind that the burden, which the AMV has had to carry during the 90s, has been bigger than ever before, and it is therefore not so surprising that some kind of restructuring has needed to take place. The efforts to stabilise the Swedish economy meant that the initiatives were more directed by quantity than by quality.⁴⁵

In the OECD *Jobs Study* it is also mentioned, that the employment offices were overloaded with work and that the result of this was, that the use of benefit sanctions was reduced sharply.⁴⁶

⁴⁴ OECD 1996a

⁴⁵ Regeringens Prop. 1999/200: 98

⁴⁶ OECD 1996b: 36-37

Part 2

The Labour Market 1996-2000

This part of the report should help us to evaluate how efficient the unemployment benefit system and ALMPs managed the crisis of the early nineties and to describe which moves have been made since 1995 to adjust to the new conditions on the labour market. We shall do this by looking at developments on the labour market, reforms to the benefit systems and administration of these (including reforms directed at 'a-typical' cases). The role of active labour market measures in the developments will be described alongside the other reforms because there has been a process of closer integration of active and passive measures.

Situation on the Labour Market in the last half of the nineties

When the social democratic government was elected in 1994 it initiated a big effort to stabilise the state finances and to bring down unemployment. State expenses were reduced heavily. The budget deficit was 12% when the government changed in 1994 and was turned to a surplus in 1998. The right wing government had hoped, that efforts to decrease the inflation rate would have a positive effect on the employment situation, but this did not seem to happen. It was necessary to focus on full employment⁴⁷

Although the situation had bettered since the level of unemployment reached its peak in 1993 it was more or less stuck by the mid-90s and did not begin to fall again till 1997 (Table 12). After this the unemployment rate decreased quite a lot. The decrease influenced most parts of the labour market⁴⁸. These positive results should nevertheless be held up against the fact that compared to the 80s and to what one might consider a Swedish standard; unemployment is still fairly high (5.9 % in 2000 compared to around 3% during the eighties⁴⁹). This level of unemployment is however still low in comparison to the average EU-15 unemployment rate at 7.6%.⁵⁰

Table 12 Employment/population ratios; Labour force participation rates; Unemployment rate, persons aged 16-64 years, Sweden 1995-2000

	1995	1996	1997	1998	1999	2000
Total						
Employment/population ratio	72.2	71.6	70.7	71.5	72.9	-
Labour force participation rate	79.5	79.5	78.7	78.1	78.5	-
Unemployment rate (% of civilian labour force)	9.2	10.0	10.2	8.5	7.2	5.9

Source: OECD Employment Outlook; OECD Labour Force Statistics 1980-2000

In 1996 the government stated that it aimed at decreasing the open unemployment rate by 50% by the year 2000. This goal was actually achieved. In 1998 the government proclaimed that it aims at increasing the employment rate to at least 80% by the year 2004. The background for this can be sought in the stagnation of the employment rate. In 1993 the employment rate was 72.6% and in

⁴⁷ Regeringskansliet 2000: 4-5; Johansson 1999

⁴⁸ Regeringskansliet 2000: 5-6

⁴⁹ OECD Labour Force Statistics 1980-2000

⁵⁰ Eurostat, September 2001

1999 it was 72.9% as compared to the quite high participation in the beginning of the nineties (83% in 1990)⁵¹.

More employment but more unevenly spread

Although the unemployment rate has been falling steadily during recent years, it is remarkable, that the fall tends to become more unevenly spread between different groups. It is more unevenly spread than the increase in unemployment in the beginning of the 90s was. During the recession, the unemployment hit geographical regions evenly, but now regional differences tend to increase. Increase in the employment rate has mainly prevailed in the big city areas and in the university-areas. A big part of the employed in these regions works in the private service-sector, which has felt the most positive effects of the economic up-turn. Industrial areas have also gained significantly from the economic up-turn. In contrast to this, forest areas have experienced a much weaker development.

Also in terms of age-differences unemployment seems to be more unevenly spread than earlier with a negative effect on the older part of the labour force (Table 13). Young unemployed seem to have more job-possibilities and tend to leave the labour market for educational purposes more often than older unemployed.

Table 13: Unemployment, labour force participation rates and employment/population ratios by age and sex, Sweden 1995-1999

	1995	1996	1997	1998	1999
Both Sexes, aged 16-24					
Employment/population ratio	42.3	40.3	39.6	41.6	43.8
Labour force participation rate	52.7	51.1	50.2	50.0	51.1
Unemployment rate	20.6	22.5	22.5	16.8	14.2
Both Sexes, aged 25-54					
Employment/population ratio	82.6	81.8	80.6	81.3	82.6
Labour force participation rate	89.6	89.4	88.6	88.0	88.0
Unemployment rate	7.9	8.7	9.2	7.6	6.2
Both Sexes, aged 55-64					
Employment/population ratio	61.9	63.4	62.7	63.0	64.0
Labour force participation rate	67.1	69.0	68.1	67.5	68.6
Unemployment rate	7.8	8.2	8.0	6.6	6.6

Source: OECD Employment Outlook

Long-term unemployment has increased (Table 14). It is more difficult for the older unemployed to get a job and they tend to be long-term unemployed more often than young people. The long-term unemployed tend to be a bit older than most unemployed (about 60% of the long-term unemployed are men). Long-term unemployment (more than 12 months) is higher among men than among women. There has been a small increase in the possibilities for long-term unemployed to get a job,

⁵¹ Regeringskansliet 2000: 4-5

but it seems to have stagnated now so that about three percent of the long-term unemployed get a job each month, but just as many become long-term unemployed⁵²

Table 14: Incidence of long-term unemployment as a percentage of total unemployment, Sweden 1995-1998

	Total		Men		Women	
	6 months and over	12 months and over	6 months and over	12 months and over	6 months and over	12 months and over
1995	45.6	27.8	49.3	31.4	40.8	22.9
1996	48.4	30.1	51.6	33.6	44.5	25.8
1997	50.8	33.4	53.1	36.1	48.1	30.1
1998	49.2	33.5	52.2	36.3	45.6	30.1

Source: OECD Employment Outlook

The unemployment rate among people born outside Sweden is still much higher than among people born in Sweden, but the employment-rate among these groups has increased considerably and unemployment is also going down.⁵³

Unemployment is still highest among those with the lowest level of education. Table 15 shows, that women with less than upper secondary education experience the highest unemployment rate.

Table 15 Unemployment, labour force participation rates and employment/population ratios by educational attainment for persons aged 25-64, Sweden 1996 & 1998

		Both Sexes			Men			Women		
		Less than upper secondary education	Upper secondary education	Tertiary education	Less than upper secondary education	Upper secondary education	Tertiary education	Less than upper secondary education	Upper secondary education	Tertiary education
1996	Employment/population ratio	68.7	79.2	86.9	73.5	80.8	87.1	63.3	77.5	86.8
	Labour force participation rate	77.1	87.6	91.3	82.2	90.1	92.0	71.3	85.0	90.6
	Unemployment rate	10.8	9.6	4.8	10.5	10.3	5.4	11.2	8.8	4.3
1998	Employment/population ratio	66.4	80.1	89.0	71.9	81.8	89.2	59.9	78.4	88.8
	Labour force participation rate	74.1	86.3	92.3	79.7	88.7	93.1	67.3	84.0	91.6
	Unemployment rate	10.4	7.2	3.6	9.8	7.7	4.2	11.1	6.6	3.0

Source: OECD Employment Outlook

More demand for work – a problem of matching

There is a clear rise in the number of jobs reported to the employment offices, especially permanent jobs are increasing but it is also worth noting that more than every second reported job is temporary. In spite of the big amount of spare jobs there seems to be a problem of recruiting people with the right qualifications. The AMS has made an inquiry into how many employers in different sectors experience problems with recruitment of educated or experienced work force and how many of them expect that their problems can be ascribed to bottlenecks (Table 16).

⁵² Regeringens Prop. 1999/2000: 98: 23-25

⁵³ Ibid.: 17-21

Table 16: Part of the interviewed employers, who experience lack of skilled or experienced workforce, Sweden, autumn 1999

	Problem of recruitments	Skilled work force	Bottleneck-problem (in relation to lack of skilled work force)	Experienced work force	Bottleneck problem (in relation to lack of experienced work force)
Construction business	62.2	39.9	51.0	44.3	49.8
Industry	49.1	28.3	36.6	29.3	38.0
Commissioned Research and Development	58.2	26.3	48.4	37.8	48.9
Other Private Services	44.3	20.8	31.3	25.3	29.7
Total	50.4	26.2	40.0	31.0	39.9

Source: Regeringens Prop. 1999/2000: 98:27

Table 16 shows, that especially employers in the construction business and commissioned research and development experience a lack of skilled and experienced workforce. And nearly half of these judge there to be a bottleneck problem.

In the second quarter of 2001 the degree of vacancies – defined as jobs which need to be filled immediately – was 0.7% of the number of employees, while the relative degree of unemployment as a percentage of the labour force was 3.8%.⁵⁴ In 1999 structural unemployment was assessed to be 5.75% of the labour force, which is a decrease compared to 1995.

According to a government proposition there is a risk that the labour market will be split in two. On one hand, there is a group of job seekers who do not fulfil the educational demands of the labour market. These people risk falling in to long-term unemployment or to circle between unemployment, active labour market measures and temporary jobs. On the other hand there is a group of people with very attractive qualifications. This group is not big enough to fill up all the jobs. This mismatch might occur because some of the jobs reported to the employment offices are not so important for the employers to fill. Therefore they do not want to employ someone who is the least under qualified. This can be seen as a consequence of a rule that workplaces are obliged to report all vacancies to the public employment service.

There is still a big work-reserve in comparison to before the crisis in 1990 especially when including under-employed who against their own will hold part-time jobs. Under-employment is especially seen among women. Another work-reserve is among those born outside Sweden.

All in all, one can say that though the Swedish level of unemployment is lower now than it has been for a long time, there is still a big group of people who are out of work full time or part time against their will, while there are actually quite a lot of jobs available. This is due to changed structures on the labour market where the private service sector has got an increased influence on the labour market. The question is how to match the jobs and the unemployed in terms of skills as well as in terms of geographical problems⁵⁵

⁵⁴ Ekström 2000

⁵⁵ Regeringens Prop. 1999/2000:98: 27-31

Reforms in the unemployment benefit system 1995-2001

The period between 1995 and 2001 has been full of changes to the Swedish labour market policy. In the mid-nineties the government carried out a general inspection of the social security system. A major reform of the unemployment benefit system was made in 1997. The reform integrated the KAS and the Unemployment insurance so that both benefits are now administrated by the unemployment insurance funds. The focus on active measures intensified and criteria for receiving unemployment benefits have become more difficult to fulfil. Recent reforms in 2001 have been targeted at balancing the systems of active and passive measures better.⁵⁶

In the beginning of this period there were also direct efforts to reduce public expenditure on unemployment insurance benefits. In 1996 the Social Democratic government decided to reduce the unemployment insurance benefit from 80% to 75% of previous earnings by January 1st, 1996. This decision was met with critique from the unions and was not the only step, which made economic conditions for the unemployed harder. Restrictions were made on benefits for part-time workers and it was made more difficult to turn down a job offer. However, already in the winter of 1996 an agreement between the blue-collar trade union confederation (LO) and the social democrats was made to put the replacement-levels back to 80% in 1997.⁵⁷

The following section is an account of the developments on the labour market much of which is based on governmental propositions from 1999/2000.

The Unemployment Insurance Act of 1997 and the Unemployment Insurance Funds Act of 1997

In 1996 the government appointed a commission to investigate the functioning of the unemployment benefit system as part of the general investigation of the social security system. The commission proposed that the flat-rate KAS benefit should be merged with the unemployment insurance funds so that a basic flat-rate benefit relying on work-conditions would exist alongside the earnings-related benefits in all unemployment insurance funds. Other proposals concerned stricter qualifying conditions, restrictions on re-qualification and shortening of benefit periods. On July 12, 1996, a parliamentary decision on suggestions close to these was taken. Subsequently modest changes were made in the qualifying conditions and changes to re-qualifying conditions were postponed after negotiations between the Social Democrats, the Centre Party and LO. Criticism of this merging came from right-wing supporters who inferred that the basic universal benefit would be tied too closely to the unions if they were administered by the unemployment insurance funds. This was not considered to be reasonable, although it was possible to be a member of an unemployment fund without being a member of the related union. In order to meet this point of view, the ALFA-fund was established. The ALFA-fund is an independent unemployment insurance fund. Besides being an insurance fund it is in charge of paying the basic benefits for people who do not hold any insurance⁵⁸. After this the Swedish unemployment insurance consists of two types of alternative benefits, which are both administrated by the unemployment insurance funds:

1. Basic Benefits (a fixed amount), and

⁵⁶ Regeringskansliet, 2000 6ff; Regeringens Prop. 1999/2000:98:32-33;45-46

⁵⁷ Palme & Wennemo 1997:31-32

⁵⁸ Palme & Wennemo 1998: 31 ff; Arbetsmarknadsstyrelsen 2001

2. *Income related benefits (based on previous income) for persons who have chosen optional insurance by becoming members of an Unemployment Insurance Fund*⁵⁹

Reforms 2000-2001: strengthening the work approach

Sweden is currently experiencing the first effects of major reforms to the benefit entitlements, which have been put into force in January 2001. These reforms have been targeted at solving issues of better public security, equal treatment, simpler rules and avoidance of circling between benefits and active measures. Problems first of all concern the possibility of re-qualifying for benefits by participating in active measures (cf. negotiations in 1996). This has led to a misuse of the system as a type of early retirement pension scheme⁶⁰. Another issue concerns, that the employment offices tend to administer the rules of the labour market measures very differently and generally not as strict as the system is intended. It is also wished to stress that the unemployment benefits should be perceived as temporary and to encourage people to keep on seeking jobs. The two biggest changes concern sanctions and the introduction of an activation-guarantee.

The underlying principles described in government propositions are: job seekers should have the possibility of turning down unsuitable jobs and they should have a sense of public security when being in contact with the system; the working people should have a stronger sense that the unemployment insurance system is legitimate and gives equal treatment to everyone. The unemployment funds should have more responsibility when the right to benefit is considered, the employment offices should be given more time to the actual information-work (informing about job-possibilities). Generally the system should be less strict in order to assure a correct administration of the rules. It is also important that the quite big spare resources among the labour force should be used to prevent overheating of the labour market. It should be secured that the labour force has good and relevant competences. There should be good matching procedures between employers and the labour force, a high degree of geographical as well as professional mobility and finally gender-gaps should be broken⁶¹.

Individual action plans

One way of trying to assure that the rules are administered similarly in different employment offices is to use individual action plans. These were introduced in the Unemployment Insurance Act of 1997 and are part of a policy, which stresses rights and duties of the unemployed. Applicants for unemployment benefits have to be willing to draft an individual action plan in cooperation with the employment office. The action plan has to be agreed upon within three months from registration at the Employment Office. The action plans can be described as contracts although not in a strictly formal sense. The unemployed promise to search actively for work using a specified individual strategy while the unemployment office also promises to help in practical and economic matters. The contractual nature of the action plans stresses the employment offices obligations to offer effective job promotion activities and the unemployed person's obligations to seek jobs intensively. These action plans have tended to be of very varying quality and have not worked as effectively as wished and intended.⁶²

⁵⁹ Schaal 2001:4

⁶⁰ Regeringens Prop. 1999/2000:139:32

⁶¹ Ibid.: 18-24

⁶² Regeringens Prop. 1999/2000:98: 48-49; Näringsdepartementet 1999:199-204; Schaal 2001: 8-9; Regeringens Prop. 1999/2000:139:49-51.

In a recent government proposition it is stressed, that the action plans should be of a better quality and should be subject to continuous evaluation. The action plans should also take into account that the unemployed should be willing to accept a wider range of jobs the longer he or she has been unemployed. If a person is unwilling to follow the action plan a very noticeable reaction should come from the employment office. In the report of the commission appointed by the Ministry of Industrial Affairs it was suggested that the action plans should be formed as contracts. The Labour Market Board was against this suggestion because it resembled a legally binding agreement. The government agreed with this so the action plans are still considered as plans and not as contracts.⁶³

Demands on search-area

The action plans also consider how flexible the unemployed should be when searching jobs of different kinds and in different locations. The new reforms have changed the demands to which jobs should be accepted by the employed. Before this change, the unemployed had to accept all suitable jobs, which were offered in order to show, that they were available to the labour market. The employment office assessed the suitability of the job. In 2001 the unemployed have been given the possibility of searching in limited job areas (geographically and professionally) during the first 100 days of unemployment. After this, the jobseeker has to enlarge the area of job search in accordance with individual action plans. If a person gets a job and after 12 months becomes unemployed again, he or she will again be allowed to have 100 days of job-search in a narrow area. If in contrast a new benefit period follows immediately after the first period it is demanded that the professional and geographical widening of search-area continues. Although the search area is enlarged, the concept of suitable work should still be taken into account. The conditions for what is suitable work should also appear from the action plans. After a certain period, the job-searcher should agree to widen the job search to include a broader span of jobs both professionally and geographically.⁶⁴

Active measures

As can be seen in Figure 1, the balance between active measures changed in the mid-nineties. Expenditure on active and passive measures moved to more or less the same level, reflecting that the high unemployment rate could not be managed by the traditional ALMPs only. Several new measures have been introduced and tried out since 1995. We do not intend to describe all these in detail, but rather to consider which types of measures have shown the best results.

As in other countries, the job promotion activities of the ALMPs seem to have positive results on the individual's possibilities of getting a job. The 1980s vocational training tended to give very positive results on income as well as employment, but this has changed for those who have participated in vocational training in the beginning of the 90s. The government suggests that some of the negative effects have occurred because of lack of motivation among participants and that during the recession unemployed would use the vocational training to re-qualify for benefits. According to a government proposition more positive effects have started to occur after the recession.⁶⁵

Demand affecting measures have had varying effects. Support for self-employment and subsidies given in the initial phase of employment seem to have had fairly positive effects during 90s. The latter type of measures might however have dead-weight effects where people in subsidised jobs

⁶³ Regeringens Prop. 1999/2000:98: 48-49; Näringsdepartementet, 1999:199-204; Schaal, 2001: 8-9; Regeringens Prop. 1999/2000; 139:49-51.

⁶⁴ Regeringens Prop. 1999/2000: 139: 52-54.

⁶⁵ Calmfors, Forslund & Hemström 2001: 45-46

have taken jobs someone else might have got. Temporary jobs created for unemployed do not have as good effects as the other demand affecting measures. Generally, support for self-employment has had better effects than other demand-affecting measures such as subsidised unemployment (*beredskabsarbete*). All in all, it can be said that the active measures used in the 90s have had a pretty limited effect on the chances of getting work for the unemployed. Nevertheless, the active measures might have prevented people from leaving the labour force⁶⁶.

According to a government proposition, the long-term unemployment has been kept down by the use of active labour market policy. About 80% of the unemployed today have participated in an active labour market measure and half of those who have participated in an active measure had participated in four or more active measures before⁶⁷.

Reducing the amount of active measures

A result of the establishment of new active labour market measures during the recession was, that many of the measures more or less covered the same areas. Several changes and simplifications were made already in 1998. But again from August 1, 2000, the amount of programmes have been reduced to seven, namely: *Vocational Training (Arbetsmarknadsutbildning)*, *Apprenticeships (Arbetspraktik)*, *Subsidies for employment (Anställningsstöd)*, *Development guarantee (Utvecklingsgaranti)* including activation-guarantee, which will be mentioned below, *support for self-employment*, special projects designed for labour market policies and finally special measures for people with handicaps. It is stressed that combinations of the programmes should be made easier and more flexible⁶⁸. Various actors suggest that the unemployment funds should take part in the daily work of the employment offices. The government argued against this by referring to the fact that the employment offices might have knowledge about certain personal relations, which the unemployment insurance funds should not know.⁶⁹

The major problems, which the Swedish government tries to overcome now by changes in the active measures, can be said to be:

- 1) A mismatch between solutions found at local levels and the economic costs of these solutions. There is for example a problem of control and administration: the budget should be kept and the AMV should strive more efficiently to implement the goals of the government.
- 2) The labour market policy can still be said to carry too heavy a load of the employment problems. The labour market itself should be more involved.
- 3) It is still a problem that some people re-qualify for benefits continuously. This leaves the labour market policy less active and more passive than intended.
- 4) The labour market policy can have a negative effect on the wage-level and thereby on inflation.⁷⁰

Activation Guarantee and wage support for older long-term unemployed

On August 1, 2000, an activity guarantee was introduced as an effort to cut down long-term unemployment. According to this programme long-term unemployed⁷¹ over 20 years of age, who are

⁶⁶ Regeringens prop. 1999/2000: 98:34-35

⁶⁷ Regeringens Prop. 1999/2000: 98: 22

⁶⁸ Ibid.:61

⁶⁹ Ibid.: 83

⁷⁰ Ibid: 37-38

⁷¹ And people who are at risk of becoming long-term unemployed

disposable, to the labour market have to be offered a full-time activity if they have not found a job on the regular job-market or begun regular education. The activity guarantee can include all types of active measures, but is primarily based on measures of organised job-search activities. As an effort to avoid long-term unemployment especially among the older part of the labour force in which a tendency to use the circulation in the labour market measures and re-qualifications for benefits as a sort of early retirement, a new special employment support has been introduced for people who are over 57 years, and who have been unemployed or who have participated in an active measure for at least 24 months, and who have been registered at the employment office for at least 24 months and have participated in the activity guarantee for at least 3 months. This economic support is given for 24 months and pays 75% of the wage-costs with a ceiling of SEK 525 per day or 55 Euro. The rule of job security does not include those employed through this measure.

The activity guarantee has four goals:

- 1) To give the unemployed activity leading directly or indirectly to a job on the regular job-market.
- 2) To break the tendency to re-qualify continuously for benefits by participating in active measures.
- 3) To make sure that the unemployed continues to seek jobs during participation in an active measure. The activity guarantee should prevent so-called 'cultures of unemployment'⁷² to appear, because it becomes a rarity that anyone is unemployed and inactivated for a very long time. It is also hoped that the programme will prevent a misuse of the re-qualification possibilities.
- 4) The activity guarantee should support the development of methods, which make it easier to activate groups who are especially at risk of long-term unemployment.

Economic support during participation in an active measure is the same as the person is entitled to from the unemployment insurance fund. If the person is not insured he or she is entitled to an activity support of SEK103 or 10,8 Euro per day⁷³.

Changes in conditions for entitlement to unemployment insurance

Changes to the benefit system aimed directly at reducing the risk of moving continuously between active and passive measures have been made gradually since 1995 (See table 17 and 18). From January 1, 1996 it was no longer possible to qualify for *the first period* of benefits by any other activity than work i.e. not by participation in active measures. Active measures could only count as work when an unemployed person was re-qualifying for a benefit period. From July 1997 there were two types of work-conditions. One was work for 6 months at least 70 hours per month during the last 12 months and the alternative was work for at least 450 hours in a continual period of 6 months with at least 45 hours of work per month during the last 12 months. Active measures also counted as work when someone applied for re-qualification for benefits.

In connection to the law on activity guarantee in 2001 certain changes have been made to the benefit period of the unemployment insurance system. People who are included in the activity-guarantee scheme cannot re-qualify for a benefit by participation in active measures. Time in these measures can instead be understood as a break or parenthesis in the benefit period. When a period of partici-

⁷² 'Cultures of unemployment' is a term used in the government proposition on which this is based. It should be understood as a culture, which is developed when many long-term unemployed know each other or just knowing the existence of each other. The risk is, that being unemployed is understood as a normal way of life. This might make some people less inclined to job-search.

⁷³ Regeringens Prop. 1999/2000: 98: 54-59

pation in an active measure is ended, and the participant still is out of job, the benefit period, which was begun before the active measures, is continued. In order to take account of breaks that might last for a long time due to education or illness the break cannot last for more than 7 years. People who are not included in the activity-guarantee can still re-qualify for benefits, but only once.

Table 17: The Swedish Unemployment Insurance System 1996-2000

	1996	1997	1998	1999	2000	2001
Institution	Unemployment insurance funds	Unemployment insurance funds	Unemployment insurance funds. The system changed name to voluntary income-related insurance (<i>frivillig inkomstrelaterad försäkring</i>)	Unemployment insurance funds	Unemployment Insurance funds	Unemployment Insurance funds
Membership	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary
Age limit for entitlement	16-64 years	16-64 years	16-64 years	16-64 years	16-64	16-64
Waiting period	5 days	5 days	5 days	5 days	5 days	5 days
Benefit period	From 16 to 55 years: 300 days From 55 to 64 years: 450 days (No possibility of re-qualification by participation in Active labour market measures when re-qualifying for the first time)	From 16 to 55 years: 300 days From 55 to 64 years: 450 days (No possibility of re-qualification by participation in Active labour market measures when re-qualifying for the first time)	Age-limit heightened from 55 to 57 years For those from 16 to 57 years: 300 days, for those over 57:450 days (No possibility of re-qualification by participation in Active labour market measures when re-qualifying for the first time)	From 16-57 years: 300 From 57 to 64 years: 450 (No possibility of re-qualification by participation in Active labour market measures when re-qualifying for the first time)	From 16-57 years: 300 From 57 to 64 years: 450 (No possibility of re-qualification by participation in Active labour market measures when re-qualifying for the first time)	From 16-57 years: 300 From 57 to 64 years: 450 People who are included in the activity-guarantee scheme can not re-qualify for a benefit by participation in active measures. People who are not included in the activity-guarantee can still re-qualify for benefits, but only once.
Work conditions	Four months of work in the last 12 months before unemployment Or participation in certain Active Labour Market Measures for the same period	Extension of work condition to 6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.
Membership condition	12 months (24 months for self-employed)	12 months (24 months for self-employed)	12 months (24 months for self-employed)	12 months (24 months for self-employed)	12 months (24 months for self-employed)	12 months (24 months for self-employed)
Possibility of re-qualification for a new benefit period?	Yes, if work condition is fulfilled again	Yes, if work condition is fulfilled again	Yes, if work condition is fulfilled again	Yes, if work condition is fulfilled again.	Yes, if work condition is fulfilled again.	Yes, if work condition is fulfilled again.
Existing insurance fund for self-employed	Yes	Yes	Yes	Yes	Yes	Yes
Conditions for Unemployment Insurance funds	10.000 members	10.000 members	10.000 members	10.000 members	10.000 members	10.000 members

Sources: Nososco 1991-1999

Table 18: Cash Benefits for non-insured individuals, Sweden 1995-2000

	1995-1997	1998	1999	2000	2001
Name	KAS	Grundförsäkring (basic insurance)	Grundförsäkring (basic insurance)	Grundförsäkring (basic insurance)	Grundförsäkring (basic insurance)
Target group	Unemployed who are not members of an unemployment insurance fund.	People who fulfil work conditions of the unemployment insurance, but not the membership conditions	People who fulfil work conditions of the unemployment insurance, but not the membership conditions	People who fulfil work conditions of the unemployment insurance, but not the membership conditions	People who fulfil work conditions of the unemployment insurance, but not the membership conditions
Age limit for entitlement	20-64 years	20-64 years	20-64 years	20-64 years	20-64 years
Waiting Period	5 days	5 days	5 days	5 days	5 days
Maximum benefit period	From 20 to 55 years: 150 days From 55 to 64 years: 300 days	Age-limit heightened from 55 to 57 years For those from 20 to 57 years: 300 days, for those from 57 to 64 years: 450 days	From 20 to 57 years: 450 days From 57 to 64 years: 300 days	From 20 to 57 years: 450 days From 57 to 64 years: 300 days	From 20 to 57 years: 450 days From 57 to 64 years: 300 days
Work condition	5 months of work over 12 months during the last 2 years, at least 75 hours per month	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.	6 months of work, at least 70 hours of work per month during the last 12 months before unemployment. Or 450 hours of work in a non-interrupted period of 6 months.
Membership condition	None	None	None	None	None

Sources: Nososco 1991-1999)

Change of sanctions: reducing benefits gradually

According to the law of 1997 a person who has done one of the following things should be excluded from insurance:

- left a job without an acceptable cause,
- been fired because of unacceptable behaviour,
- turned down a suitable job-offer without an acceptable cause
- without explicitly turning down a suitable job obviously expressed that he or she is not interested in it

According to this law, the period of exclusion could be between 10 and 60 days. 60 days of exclusion was the most common period of exclusion. This is potentially a trebling of the exclusion period since 1990. The days of exclusion had to be carried out in a period between 28 and 168 (calendar) days. If similar situations occurred again, the unemployed could be totally excluded from benefits until 80 days of regular work had been attained.⁷⁴

⁷⁴ Regeringens Prop. 1999/2000: 139: 44-45; 55-56; Forslund 1999: 5-7

As mentioned in Part I rules of sanctions in the unemployment benefit system have been used less and less during the past twenty years. In 1999 the sanctioning rules were used 2800 times compared to 6400 times in 1980. This indicates that the employment offices tend not to make use of the rules, because they find them too hard. The rules are also administered very differently in different employment offices, thereby giving a problem of fairness.

The system of 1997 has been changed because a lot of people were forced to take jobs to which they were over-qualified or in which they had no interest. This reduced their possibilities of searching and applying for more suitable jobs. Another point was, that many of those who are excluded from unemployment insurance benefits are forced to apply for complementary economic support from the system of social assistance. This means that the costs for society remain more or less the same in cases of sanctioning. They are just transferred from one payment-office to another.⁷⁵

From July 1st, 2000, a sanctioning-system inspired by the Dutch system was introduced. The system implies a gradual lowering of benefits for every time a sanction is executed. If an unemployment benefit recipient does any of the above-mentioned four things, which should lead to sanctions, the unemployment benefit is reduced by 25% for 40 days of the benefit period. If the same happens again the benefits should be reduced by 50% for 40 days. The 40 days of reduced benefit should not be spread over more than 180 (calendar) days. If a third time occurs, the unemployed loses the right to benefit till a new work-condition is fulfilled. The fixed sanction period has been introduced as an attempt to simplify the system and to make it less hard (note that 60 days of exclusion used to be the most usual sanction). It is seen as a reasonable and a motivating factor that the job-searcher has the possibility of searching jobs, which match qualifications and are offered in a geographically close location. This should be possible with a combination of this reform with the reform allowing 100 days of limited search.

If a person leaves work with no acceptable cause or has separated from work because of unacceptable behaviour the old rules of between 10 and 60 days of exclusion still count. Acceptable reasons for leaving a job can be health-concerns or problems of collective bullying.⁷⁶

Benefit entitlements 2001

Before August 1st, 2000, there was no fixed limit to the time spent in an active measure. Now, the active labour market policy measures, which qualify for activity support, should maximum last for 6 months. Only in special circumstances should a longer participation period be possible. This rule does not include people in the activity guarantee.

The first 300 days⁷⁷ of benefit entitlement pass as in the first example with possible breaks of jobs or activities. When the first 300 days of benefit entitlement have passed, and the person in question has not worked enough or been in an active measure long enough during the last 12 months to be entitled to a new benefit period, the employment office has to consider, whether the unemployed should be offered the activity guarantee, or if the person is so close to having a job or liable to find a job in the near future (e.g. if an active measure has had luck to bring the person in consideration to a job) that a new benefit period can be given. The activity guarantee should at the latest be put into force 27 months after unemployment has begun. Persons who decide to leave the activity guarantee before they fulfil the work requirement are not entitled to benefit.

Because of the activity guarantee and the new special support for older unemployed, the government did not find a longer period of benefit necessary for the older unemployed any more.

⁷⁵ Regeringens Prop. 1999/2000: 139: 52-54

⁷⁶ Ibid.

⁷⁷ This example concerns unemployed below 57 years of age

The level of the activity support will always be the same as the unemployment benefit. And if a person applies for unemployment insurance before 12 months after he or she left the activity guarantee (for a job or because the person re-qualified for benefits) the person is still entitled to receive the same level of compensation as before⁷⁸. If a person becomes temporarily part-time employed three months after participation in activity guarantee and after having fulfilled the work requirement, this person is not entitled to benefits.

The new system where those who are not included in the activity-guarantee can re-qualify for benefits gave rise to critique from IFAU in the first instance, because it was thought that it would lead to continuous re-qualification. Therefore the reform has been designed so that it is only possible to re-qualify once, because the activity guarantee has to be put into force after 27 months (more or less equivalent to 600 days). See table 19 for benefit levels, caps and number of unemployed with/without compensation⁷⁹.

Heightening of benefit levels

The development of the Swedish unemployment benefits since 1995 has not included lower compensations as was recommended by the OECD. One must, however take into account that benefits were reduced to 80% by the rightwing government in 1994 and again to 75% in 1996 by the social democrat government. The 75% compensation was however soon abandoned and 80% has been the level since then. Although benefits have not been cut more than they have, it is important to note that they have been combined with stricter criteria for entitlements. A new benefit system was introduced from July 1st 2001. Benefit levels for the unemployment insurance benefits per day are now SEK 680 or 72 Euro during the first 100 days of unemployment (five days a week). After this they are reduced to SEK 580 or 61 Euro per day (See table 19). The underlying argument for this change is, that the unemployed need time to convert to their new income level in the transition from work to unemployment. They might for example need to move to a place with a lower rent and generally adapt their consumption to the new situation. The heightening of benefit levels have been made because the other changes to the system in terms of activity guarantee, entitlements and sanctions should ensure that problems of incentives are minimised.⁸⁰

Table 19: Benefit-levels for Unemployment Insurance and KAS, Sweden, 1995-2000

Year	Min. benefit level per day, SEK/EURO (KAS/Basic-Benefit)	Max. benefit level per day, SEK/EURO (Unemployment Insurance benefit)	Cap: Annual wage giving maximum compensation, SEK/EURO	Level of Compensation (% of former income five days per week)	Average benefit, income related unemployment insurance, SEK/EURO
1995	245/ 26	564/ 59	183300/ 19295	80	461/ 49
1996	230/ 24	564/ 59	195520/ 20581	75	458/ 48
1997	240/ 25	580/ 61	188500/ 19842	80	472/ 50
1998	240/ 25	580/ 61	188500/ 19842	80	501/ 53
1999	240/ 25	580/ 61	188500/ 19842	80	510/ 54
2000	240/ 25	580/ 61	188500/ 19842	80	521/ 55
2001	270/ 28	For the first 100 days: 680/ 72; thereafter: 580/ 61	-	80	-

Source: Regnér & Wadensjö 1999: 9; Regeringens proposition 1999/2000: 139: 47; Statistisk Årsbok för Sverige 2001; Arbetsmarknadsstyrelsen 2001

⁷⁸ Näringsdepartementet 2001: 39

⁷⁹ Regeringens Prop. 1999/2000:98: 63; Regeringens Prop. 1999/2000: 139: 59-71; Näringsdepartementet, 2001: 39.

⁸⁰ Regeringens prop. 1999/2000: 139

Income Packaging and Net replacement rates

A significant feature of the Swedish Unemployment benefit system is as mentioned, that benefit levels are high. This has often been criticised (e.g. by the OECD) because it is found to give problems of incentives. We shall now consider how the high benefit levels affect different family types in terms of net replacement rates. The first important thing to note is, that the low caps of the benefits (Table 19) mean, that the low income of the low income groups is generally much better compensated in case of unemployment than the income of higher income groups is. The more you earn the more you loose relatively in case of unemployment. The following is mainly based on the OECD publication of 1999: *Benefit systems and Work Incentives*.

Table 20: Net replacement rates for four family types at two earnings levels⁸¹

After tax and including unemployment benefits (not for the long term benefit recipients), family and housing benefits.

	APW level				66,7% of APW level			
	Single %	Married couple %	Couple 2 children %	Lone parent 2 children %	Single %	Married couple %	Couple 2 children %	Lone parent 2 children %
First month of benefit receipt	72	72	84	95	77	77	90	96
Long term benefit recipients ⁸²	58	76	100	75	84	100	100	100

Source: OECD: Benefit Systems and Work Incentives

The unemployment benefit system in Sweden provides a yearly minimum benefit of 59,800 SEK or 6295 EUR. The maximum level is 146640 SEK or 15436 EUR⁸³. The effects of the low cap are illustrated in table 20. Most remarkable are those types of benefit recipients who are compensated by 100% of their former income. The compensation level for long-term unemployed couples and lone parents with 2 children with a former income level at 66,7% of and Average Production Worker (APW) is 100% when including family and housing benefits.

Table 20 also shows how the net replacement rates vary for different family-groups. After one month of unemployment singles and married couples have the same compensation level, which is lower than the replacement levels for families with children. This changes when the unemployed has been out of work for more than 60 months. For long-term unemployed with a former APW income the replacement rates for singles decreases, while that of married couples increases. The lone parents with a former APW income are also negatively affected.

The replacement rates increase even though the recipients are no longer entitled to unemployment insurance. We shall have a brief look at the economic consequences of losing entitlements to Un-

⁸¹ It is assumed that the worker is 40 years old and has a 22-year long record of uninterrupted employment. Childcare benefits are not included.

⁸² It is assumed that the household has claimed benefits for 60 months previously. Insurance benefits have by then been exhausted and the net replacement rates are calculated on the base of social assistance, family and housing benefits.

⁸³ OECD 1999:14-15

employment Benefits while being unemployed. In such cases the recipient can receive social assistance. Singles are entitled to housing benefits and one-earner couples with children in addition get a family benefit. In contrast to the unemployment benefits these benefits are not taxed and the net replacement rates are higher. Table 21 shows how the composition of the benefit changes after long periods of unemployment. This table also shows, that the net income (the inverse of net replacement ratio) is as low as 100 for one-earner couples. This is the lowest net income among the OECD countries and even lower than the other Nordic countries.

Table 21: Composition of the net benefit income of a single and a one-earner couple with two children in the initial phase of unemployment and after at least 60 months of unemployment

Source: OECD: Benefit Systems and Work Incentives

	Income components						Net incomes	
	Unemployment insurance	Unemployment assistance	Social assistance	Family benefits	Housing benefits	Income taxes	Out of work	In work
<i>Unemployed single in the initial phase of benefit receipt</i>	149	0	0	0	0	-49	100	139
<i>One-earner couple with two children in the initial phase of benefit receipt</i>	111	0	0	12	13	-36	100	120
<i>Single long-term benefit recipient</i>	0	0	46	0	54	0	100	173
<i>Long-term benefit recipient one-earner couple with two children</i>	0	0	68	10	22	0	100	100

The net replacement rates for young people who enter the labour market for the first time are lower than for the rest of the unemployed. Most often they are not entitled to unemployment insurance (cf. the work conditions) and instead receive the flat rate unemployment insurance (*grundforsäkring*). The compensation level is again highest for low-income groups:

Table 22: Net replacement rates for young single unemployed people

APW level		66.7% of APW level	
<i>Initial</i>	<i>Long-term</i>	<i>Initial</i>	<i>Long-term</i>
58	58	84	84

Source: OECD: Benefit Systems and Work Incentives

To sum up, the Swedish system is very generous compared to other countries. Poverty traps are widely avoided. One of the reasons for this can be found in the fact, that it does not involve a means test and that eligibility criteria are fairly strict. This does however have the consequence that public expenditure on benefits is high.

Part III Update

In this section we shall try to consider the changes in the Swedish policies towards unemployment during the last part of the nineties in the light of the situation and system in the mid nineties and of the discussions, which prevailed at the time.

Generally, one can say that reforms in the first half of the 90s were made to keep the rising unemployment rate as low as possible and to make sure that as few people as possible left the labour force. Reforms in the latter half of the decade have been targeted at matching the unemployed to the demands of the labour market in order to tackle bottleneck problems and reducing risks of circling between active and passive measures. If we consider EU and OECD general guidelines for labour market policies, it seems evident that The Swedish government's view on labour market policies is closer to those recommended by the EU than those of the OECD⁸⁴.

The EU focuses on active labour market policies providing skills, increased flexibility for businesses and employees in terms of employment forms and working hours. EU guidelines from 1998 for labour market policies recommended focus on improving employability, developing entrepreneurship, encouraging adaptability of businesses and their employees and strengthening equal opportunities of women and men. In Sweden focus has mainly been on employability. Sweden fulfils all of the three quantitative demands for the employment policies of the EU member states. First, all young people should be offered a job, active measure or education after 6 months. Second, the same should be offered unemployed adults after 12 months. Third, the part of unemployed who participate in active labour market measures should be 20% (the average of the three most advanced countries in the area of LMP). In several areas (e.g. measures for young unemployed) the ambition of the Swedish government actually go further than the EU-guidelines suggest⁸⁵

As we explained in the section on the nature of the debate in the beginning and mid-nineties, the OECD recommended changes to the Swedish labour market policies, which focused on lowering reservation wages and generally making the wage structure more flexible by allowing bigger wage differentials. These recommendations have not been followed. Nevertheless unemployment has decreased considerably during the last half of the decade⁸⁶.

During our meetings with researchers and civil servants it came up time and time again that the biggest challenges to the system now concern adjustments to new national economic situations. Having experienced a grave recession after a long period of good market conditions, it seems that the Swedes have started to consider how to prepare for another period of recession in case it might happen. Having reached the governmental goal of 4% open unemployment in 2000 the goal of an employment rate of 80% is the next goal. This might, however be more difficult to obtain because there are indications now that the Swedish economy is stagnating. Although it is voiced that the unemployment benefit and activation system should be prepared to cope with a new period of recession, it is hard to see where any initiatives on the basis of this argument are taken. It is also hard to imagine how a perfectly systematized way of coping with unemployment during future recessions can be an integral part of a system (after the most recent reforms) seems to mirror the labour

⁸⁴ The IMF tends to recommend the same measures as the OECD, but we have not included the IMF in this report. (Johansson 1999:22-23)

⁸⁵ Regeringskansliet, 2000 6ff; Regeringens Prop. 1999/2000:98:32-33; 45-46; Johansson 1999: 19-23

⁸⁶ Johansson 1999: 19-23

market context at present. The OECD also expresses this critique. There is a general lack of evidence about the effectiveness of ALMP on the unemployment rate. The OECD also expresses concern, that the recent raise of the ceiling of the unemployment benefits for the first 100 days will increase problems of incentives. To meet this critique we must consider why employability was stressed rather than reductions of reservation wages during the nineties.⁸⁷

Why were certain reforms adopted instead of others?

Comparing reforms before and after 1995 one can say that there has generally been an agreement about the necessity of integrating the unemployment insurance and the unemployment assistance (KAS). The right wing attempts to make insurance mandatory was, however, a very unpopular move among the opposition. When the social democrats later succeeded in joining the administration of the two systems there was, however, a need for a compromise assuring that the ALFA-fund was created for people who do not want to be members of a union. According to the people with whom we met, the recent reforms have been affected by the fact that the current is very dependent on compromises with the right-wing parties. An overall consideration of the latest reforms shows that the social democrats have succeeded in heightening benefit levels for 100 days, but that this has been done in the shadow of general attempts to make the benefit system stricter. This can be seen as a way of avoiding problems of incentives and also as a typical example of the Swedish way of combining high benefit levels with strict rules of eligibility. Research has generally shown that the lower benefits, the higher search activity e.g. by Carling, Holmlund and Vejsiu (1999) from IFAU. These researchers have analysed search activity after the announcement of the benefit cuts in 1996. Although they see a positive correlation, they hold that this does not mean that benefit cuts are the perfect way to get the unemployed back in the labour market since the increased job-search activity might affect the demand for labour force. The results of the report by Carling, Holmlund and Vejsiu led to a big discussion in the media. It is also contested in a 'reanalysis' of the same study made by the Trade Union Institute for Economic Research (FIEF) arguing that IFAUS data and results are too uncertain to point to a general causal connection between search activity and benefit levels⁸⁸.

The reform of the demands on search area has been met with some resistance from the AMS who argue that such possibilities will lengthen the period of unemployment and some labour unions that find that the time-interval of 100 days should not be fixed. The Civil Servants Organisation (TCO) suggested that certain control points should be inferred in the unemployment period and that these points should be placed according to the situation of the individual. They find that a period of 100 days is too short. The government stresses that it does not aim at forcing the unemployed to unsuitable work. The AMS has criticised this change by arguing that long-term unemployment will increase. Labour Unions have been fairly positive, but some have suggested that the periods were made flexible and instead of being fixed at 100 days should be written in a contract (the action plan) because 100 days is too short a period⁸⁹

Assessing the capacity of Sweden's institutions for evaluating the success or failure of the reform initiatives

The AMS is in charge of evaluating the functioning of the system. There is a representative of the AMS in each board of the unemployment funds. Around one percent of what the unemployment

⁸⁷ OECD 2001b:13

⁸⁸ Johansson & Sélen 2000

⁸⁹ Regeringens Prop. 1999/2000: 139: 52-54

funds pay in financial duties to the AMS goes to monitoring of the funds. The AMS is responsible for testing the unemployment insurance funds, the County employment councils and the general administrative courts' (*allmänna förvaltningsdomstolarnas*) decisions about unemployment insurance and right to benefits⁹⁰.

Beside from the AMS, IFAU also evaluates the functioning of the system. However, the commission put down by the government in 1999 to evaluate the unemployment insurance rules recommended that an independent council should be made to evaluate and survey the employment offices and the unemployment funds. The government has decided to make a plan for how such a council should be established⁹¹.

In terms of capacities, the institutions which handle activation- and employment promotion policies have existed on an extensive scale for a long time in Sweden so the capacity and experience does not seem to be a point of major concern. However, the problems of making the system righteous in terms of how an unemployed is treated at different unemployment offices is in our opinion very important to solve. Problems of too many different types of institutions handling similar types of active measures are now being taken care of in the recent reforms but it is too early to consider any results of the recent changes.

There are critical questions in this connection, which concern marginalizing effects of the labour market policy. There have been discussions about whether the active labour market policy made the situation on the labour market worse. There seems to have been agreement about the existence of a risk of marginalizing effects by placing unemployed in active measures (e.g. the dead-weight effect), there has been less agreement about the extent of the problem⁹².

It should again be stressed that although Sweden has had pretty much success in decreasing unemployment from a very high unemployment rate in 1993 till now, unemployment is still three times as high now as in the 80s. Efforts have had some success, but one does not get the impression that a level of unemployment over 2% was only a small parenthesis in the history of the Swedish Labour Market. However, as the report of the 1999 commission⁹³ noted, one should also consider which period is the most relevant period to compare the current situation on the labour market with keeping international market developments in mind. Doing this the situation now might more reasonably be compared to the situation during the 90s than during the 80s.

It is also important to note the fact that the unemployment now is more unevenly spread than it has been before among the different groups in the labour market giving big problems for immigrants, certain regions of the country and the older part of the work force.

Considering that Sweden is a very experienced country in terms of active measures some of the experiences from Sweden can be used to show what types of measures are successful.

One active measure seems to be a bit of a puzzle to evaluate. Research has indicated that there are no positive short-term effects of participation in *vocational training*. The long-term effects of vocational training in the 1990s have not been measured yet, but studies indicate that effects are better or at least not directly negative when a long-term perspective is included in the study of vocational

⁹⁰ Olli 1996: 36

⁹¹ Regeringens Prop. 1999/2000: 139: 84-85; Näringsdepartementet 1999: 58

⁹² Regeringens Prop. 1999/2000: 35-36; Calmfors, Forslund & Hemström, 2001:76

⁹³ Näringsdepartementet, 2000

training. Calmfors, Forslund and Hemström suggest that the better long-term effects might have to do with the fact that education increases the individual's 'reservation-income'.⁹⁴

Another critical remark to the active labour market policy in Sweden is that unemployed do not evaluate their chances of getting a job after participation in an active measure as very good. In fact in comparison to other Nordic countries Swedish unemployed give the most negative judgements.⁹⁵

One can also still discuss the double role of the unions. The ALFA-fund was created to avoid problems in this regard. And in fact the number of members of unemployment insurance funds has been rising during the 90s to 88% of the labour force in 1999 with a 1% fall in 2000. And the ALFA-fund only had 0.6% of all members of insurance funds in 2000⁹⁶ indicating that members of the labour force want to have insurances and that they have no worries about the fact that the labour unions administrate their unemployment insurance.

⁹⁴ Calmfors, Forslund & Hemström, 2001

⁹⁵ Nordisk Ministerråd 1999; Regnér & Wadensjö, 1999

⁹⁶ Arbetsmarknadsstyrelsen 2001: 34

Conclusions

The overall conclusion to draw from this report is, that the Swedish approach to unemployment and specifically to the drastic increase in unemployment in the nineties has focused on finding solutions through Active Labour Market Policy and reforms of the benefit systems rather than through adjustments of the regular labour market. The approach has proved to be a success in terms of making active labour market policies work and thereby avoid that people leave the labour force, but it has not been a success in terms of creating more regular jobs. In the following we shall try to sum up how the Swedish labour market developed during the nineties and to discuss future challenges to the Swedish unemployment protection scheme.

Overall developments on the labour market

Having started of the nineties with a very grave situation in terms of unemployment it is impressive that unemployment has decreased as much as it has in Sweden. The government's goal from 1996 to reduce unemployment to 4% in 2000 was reached. Now, the aim is to reach full employment. There are, however still structural problems on the labour market, which need to be dealt with.

There can be said to be a need of targeting labour market policies so that the uneven distribution of risk among societal groups is reduced. There is a very uneven distribution of unemployment between age groups, immigrants and non-immigrants and between different geographical areas of Sweden. It is also a problem that about half of the new jobs reported to the employment offices are temporary. Considering the long-term unemployment rates in the 1990s (table 6 and 14) it is worth mentioning, that when unemployment was high during the recession the part of the unemployed who were long-term unemployed fell. When the economy started developing in a positive direction the part of the unemployed who are long-term unemployed raised considerably. This illustrates the fact that even though a lot of precautions were taken during and after the recession and even though these efforts have had a positive influence on the unemployment rates, they have still not succeeded in providing efficient help to those people who are furthest away from the labour market, namely the long-term unemployed.

Categorisation of the Swedish unemployment protection system

Based on active labour market policies

In an attempt to categorise the Swedish unemployment protection scheme the key words must be: Active Labour Market Policies. The very long tradition of the use of these in Sweden is unique. The developments on the labour market in the nineties have been a major challenge to these measures because unemployment has reached very high levels in the decade. Until the mid nineties social expenditure on active measures was higher than expenditure on passive measures. Today expenditure on the two types of measures is more or less the same. This is an indication of the big rise of unemployment rather than of a downscaling of active measures as these were in fact boosted in relation to the recession. Results of the use of active measures in relation to the recession have more been a matter of keeping people in the labour force than of lowering the actual unemployment rate.

When speaking about employment rates it is important to be aware that even though the open unemployment rate has fallen considerably since 1994, quite a large number of unemployed can be said to hide from statistics in active measures. In 1999 4.6% of the labour force participated in active measures (Table 21). This is admittedly a decrease from 6.1 % in 1995. But it is, however, an

important point to make when studying the Swedish labour market policies in the 90s, that the actual unemployment rate (the open unemployed plus the people in active measures) is actually twice as high as the open unemployment rate.

High benefit levels and possibility of re-qualification

Considering the cash benefit schemes and net replacement rates of these schemes, Sweden must be said to have a very generous benefit system. Due to financial problems the unemployment insurance benefits were lowered from 90% to 80% of former income in 1994 and for a short period in 1996 they were lowered to 75% of former income. They are now again 80% and a recent reform has even heightened the benefit level for the first 100 days of unemployment. Due to the low cap of the benefit level, net replacement rates are higher, the lower the previous income was. Long-term unemployed couples and single parents with two children are compensated with 100% of former income!

Although these benefit levels are high, one can generally say that the Swedish unemployment benefit system has been tightened up in the 90s. Eligibility criteria have become stricter and it has become more difficult to re-qualify for unemployment benefits. The new programme of activation guarantee is especially aimed at people in the risk of long-term unemployment and it is not possible to re-qualify for benefits in this programme. This indicates a better targeting of the active measures towards those most in need.

Efficacy of the reforms

As mentioned, the reforms during the nineties have focused on active labour market policies rather than the situation on the regular labour market. There has, however been general success in bringing down unemployment levels. Changes to the structure of the AMV might still be necessary in order to make the system less rigid, but recent reforms concerning e.g. action plans emphasise the responsibility of the employment offices to treat unemployed fairly. If one considers the system to be too generous it might, as the OECD mentioned have been an idea to change the financial structure of the system so that it was more based on membership fees or even to make the insurance mandatory. This is, however not a very likely development in the near future in Sweden partly due to the big role of the unions in the unemployment protection scheme. Again, the high benefit levels are compensated for by the stricter eligibility criteria. The next step to take should rather be to increase flexibility on the labour market and create more jobs.

Factors facilitating and blocking reforms

Factors facilitating the reforms have first and foremost been the obvious need to take action against unemployment. Blocking institutions have first and foremost been the unions. The strong corporative structure of the Swedish welfare state including the unemployment protection system has made it difficult to put reforms through concerning wage structures. Instead of lowering wages for the young part of the labour force, special active measures have been made with focus on young people to improve their employability.

Future Challenges

In a joint report from the Nordic Council of Ministers from 1999 based on surveys among unemployed in Sweden, Finland, Norway, and Denmark, it is revealed that the Swedish unemployed give the most negative evaluation of the use of active labour market measures in comparison to the other included countries. This is interesting considering the Swedish tradition of active measures. The report suggests that a reason for the critique from the Swedish unemployed is that either there is a negative effect on the quality of the active measures if they increase in volume or that the people

who place unemployed in active measures are not as good as in other countries in finding out where to place people⁹⁷. What seems to be the most important future aim for the government is to integrate active and passive measures further in order to make the system flexible and cost-effective. A more flexible and less costly system can be hoped to be in favour of the most marginalized groups. Whether they will succeed is difficult to say before the effects of the recent reforms e.g. the introduction of the activity guarantee, can be measured.

Considering the level of the unemployment compensations it should be noted that there have been many discussions about the roof of the employment insurance. Wages have generally gone up during the economic up-turn and this means that more and more people are entitled to the highest benefit for lost wages during unemployment, it is interesting to note that private supplementary insurance schemes have begun to appear in Sweden (though only very few until now). The insurance fees depend on unemployment risks in a traditional actuarial approach. The government expresses concern that this will lead to big income differences among the unemployed.⁹⁸

Finally, as mentioned above and in line with the opinion of the OECD the next step should be to focus on increasing flexibility on the labour market and the amount of regular jobs.

⁹⁷ Nordisk Ministerråd 1999:201

⁹⁸ Regeringens Prop. 1999/2000: 139:33

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