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# **Swedish youth labour market policies revisited**

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# Swedish youth labour market policies revisited\*

by

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## Abstract

The paper studies the efficiency of Swedish labour market policies for young workers. Using age discontinuities which define which policy regime an individual is covered by we present quasi-experimental evidence on the relative efficiency of different policy regimes currently in use. Results suggest that youth policies are more effective than the policies covering adult unemployed. The effects mainly appear early in the unemployment spell; we find no evidence of positive long run effects. To uncover which part of the policies that accounts for the positive effect, we use matching techniques to study the relative efficiency of youth programmes and general adult programmes which are available also for the young. The results indicate that youth programmes are significantly less effective than adult oriented programmes. Overall, the evidence thus suggest that youth policies speed up the transition from unemployment to jobs either due to pre-programme deterrence effects or because of more intense job search support from the public employment services before the programmes.

**JEL-Codes:** J64, J68

**Keywords:** Youth unemployment, program evaluation, pre-program effects

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# 1 Introduction

Youth unemployment and late labour market entry are of growing concern in the Swedish policy discussion. However, the large scale evaluations of Swedish youth labour market policies that exist are based on data from the 1990s and leave several issues unexplained.<sup>1</sup> This paper presents some additional evidence on the effectiveness of current youth labour market policies in order to fill some of this knowledge gap.

Swedish labour market programmes targeted at youth have a history dating back to 1984. Youth programmes were however not used on a larger scale until the start of the economic recession in the early 1990s. Currently, young unemployed are treated differently from other unemployed in both “hard” aspects, such as in the types of available programmes and the timing of the programmes and less easily measured aspects such as the priority that case workers should put into job search assistance according to various policy documents.

Whereas labour market programmes generally are administrated by the Public Employment Services (PES), unemployed in the age range 20-24 are sometimes referred to a municipality-provided program (the youth guarantee, YG), and other times referred to normal PES-administrated programmes. On average, programme placements take place earlier for individuals below 25 than for older unemployed.

Previously estimated effects of programmes for young people vary. Several earlier studies of the 1980s found positive effects, at least for some programmes under some circumstances and in the long run. But these results were based on small samples and cannot readily be generalised.<sup>2</sup> Larsson (2003) found negative employment and income effects of both labour market training for youth and youth practice in the early 1990s. In addition, she found that labour market training (but not youth practice) had a negative effect on the transition rates to regular education. Comparing youth practice and training, the former outperformed the latter, at least in the short run.<sup>3</sup>

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<sup>1</sup> The only previous large sample studies are Larsson (2003) and Carling and Larsson (2005). See Calmfors et al (2004) for a review of other evaluations of Swedish youth programs and of Swedish labour market policies in general.

<sup>2</sup> The studies are surveyed in Calmfors et al (2004).

<sup>3</sup> This result is in conformity with evaluation results for Swedish programmes for adults in the 1990s.

The only study of the municipality provided youth guarantee (Carling & Larsson, 2005) pertains to 1998, the first year of the programme. The evidence in that paper indicates that the employment prospects of the participants were not significantly affected by the introduction of the youth guarantee. Due to the shape of the hazard function the authors interpret their estimated zero net-effect as the sum of two opposing forces: a positive pre-programme effect and a negative effect from the time of program placement.

The overall aim of this paper is to provide new evidence on the effectiveness of Swedish youth labour market policies in promoting transitions from unemployment to work. To this end, we perform three types of analyses. *First*, we study the effects of being covered by each policy package depending on the age group (20-24 and 25+). The identifying strategy is to compare individuals who are close in age but are covered by different policy regimes. The results from this analysis will provide an overall judgement of the effectiveness of youth labour market policies. This analysis basically updates the results in Carling & Larsson (2005).

However, these estimates are very much “reduced form” in character since the policy package has many different components. One such component is that, as we have already mentioned, some youth programmes are run by the municipalities.<sup>4</sup> This represents a more general trend towards more of decentralisation in Swedish labour market policies. Hence, in the *second* part of the analysis we analyse to what extent any effects of the policy regimes for youth may be attributed to the programme providers: does decentralisation of labour market policies improve the results? This question has not previously been addressed in connection with Swedish ALMPs.

Young people between 20 and 24 years old are exposed to different programme types. The *third* part of our analysis deals with the effects of training programmes compared to programmes with both training and workplace experience components (“practice programmes”). This analysis brings the analysis in Larsson (2003) more up to date.<sup>5</sup>

In the latter two parts of the analysis we cannot use age discontinuities for identification. Instead, we use matching techniques and identify the effects of

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<sup>4</sup> A complication related to the municipality programmes is that there is a serious lack of information about programme content. The scattered available evidence indicates that programme content varies quite a lot between municipalities.

<sup>5</sup> Unlike Larsson (2003) we do not, however, compare participation in these programmes to non-participation.

the programs under the identifying assumption that participants in different forms of programs with the same background characteristics have the same expected outcomes irrespective of program they actually participate in. To this end, we use an unusually rich register data set which makes the causal interpretation more credible.

Our results, first, show that the policy regime for the 20-24 year olds is effective in shortening the unemployment spells, even though the effects are short-lived, providing a somewhat more positive picture than Carling and Larsson (2005). Second, municipality provided youth programmes are outperformed by labour market programmes provided by the PES. Finally, programmes providing practice seem to outperform training programmes for young people for some outcomes but not for others. Hence, these results are less clear-cut than the results in Larsson (2003).

Since the positive effects of the youth policies materialize before the programs are typically set in, a tentative overall conclusion is that the positive effects from youth policies are driven by higher quality search-assistance and/or pre-programme deterrence effects from early expected programme entry rather than from positive treatment effects for those actually participating in the programmes. This is supported by the fact that the youth programs are outperformed by the programs available for older unemployed when studying the effects on participants.

How do these results for Swedish youth labour market policies square with evidence from other countries? White & Knight (2003) surveyed the literature on the effects of labour market programmes for young people.<sup>6</sup> Wage subsidy programmes generally seemed to increase the job-finding rate, whereas studies of job creation programmes in the public sector pointed to negative effects of such programmes. The results for vocational training programmes were mixed, whereas job search assistance programmes generally produced positive results. This pattern of programme effects is consistent with the general pattern of programme effects found for adults, both in Sweden and internationally (Calmfors, Forslund & Hemström, 2004; Martin & Grubb, 2001). Blundell et al. (2004) studied the New Deal for Young People in the UK. This programme has many components, two of which are mandatory job search assistance and wage subsidies. The authors found that both job search assistance and wage subsidies

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<sup>6</sup> See also the review in Heckman, LaLonde & Smith (1999) and the discussion in Heckman & Krueger (2003).

contributed to an increase in the job-finding probability, but that the treatment effect was much larger in the short run than in the long run. In applicable parts, these findings are in line with our results.

The rest of the paper is structured as follows. In section 2 we provide a background by discussing Swedish labour market policies targeted at young people. In Section 3 we discuss our identification strategies. Section 4 gives a data description. The results are presented in Section 5, dealing with the effects of different policy regimes, and Section 6, treating the relative effects of different programmes. Section 7 concludes the paper.

## 2 Swedish ALMPs targeted at youth

Until the early 1980s there were no programmes targeted at youth – young persons could participate in the same programmes as adults, i.e., training programmes and relief work (temporary public sector jobs). The first Swedish labour market programme explicitly targeted at youth was *youth teams* introduced in 1984. In 1987 and 1989 this programme was followed by two different versions of a programme called *schooling-in slots*. During 1992 *youth practice* was introduced. This programme, in contrast to its predecessors, rapidly reached large volumes. The programme was targeted at youth below the age of 25.

In the 1994 electoral campaign, the incumbent minister of labour promised that no young person (below age 25) should be left unemployed for more than 100 days. Instead, all young unemployed should be placed in programmes after 100 days of unemployment. The general election resulted in a new government, but the objective to refer young people to labour market programmes at an early stage of the unemployment spell has been present in one way or the other since the mid 1990s.

Since the early 1990s, Swedish municipalities are responsible for offering secondary education to all youth below age 20. In addition, the municipalities have an obligation to keep themselves informed about the employment status of all youth between 16 and 20 years of age. Since October 1995, Swedish municipalities have also had the opportunity to assume responsibility for the employment situation of youth between 18 and 19 years. This municipality provided program, called *municipality youth programme* (MYP), provides education or practice to facilitate a transition to work or to stimulate participation in

regular education. Although referral to the MYP is conditional on the signing of a contract between the municipalities and the PES almost all unemployed teenagers have been covered by such a contract and the MYP “market share” among programmes for teenagers has been nearly 100 percent since.<sup>7</sup>

Although on the agenda since 1994, the target that unemployed youths (below 25) should be placed in programmes within 100 days was not met by 1998. In 1998 there was a reform opening for the possibility of municipality provided youth programmes also for unemployed in the age range 20 to 24. A condition was that the municipality and the regional labour market authority signed an agreement to this effect – something which happened in some, but not all, of the municipalities. The contract meant that the PES could refer unemployed to the municipality in a programme called the *youth guarantee*<sup>8</sup> (YG). The YG amounts to an obligation to offer the target group a full-time activity after 100 days of unemployment.<sup>9</sup> The duration of the programme is capped at 12 months. In 2004, 205 out of 281 municipalities had signed an agreement with the regional labour market authority about the programme.

In contrast to the MYP for teenagers, the YG does not have a 100 % market share of programmes for 20-24 year olds. This happens for two reasons. The first is that some municipalities have chosen not to sign the contracts, and the second is that the PES may refer 20-24 year olds to programmes not targeted explicitly at youths. The two major programmes in this category are labour market training and practice programmes.

From this description it should be clear that Swedish labour market policies for relatively young workers have three different “regimes”, one for teenagers (18-19 year olds), one for young adults (20-24) and one general regime (25+).

It is important to note that the presence of the municipality provided youth programmes is not the only difference in treatment between the different age groups. For instance, even in the municipalities that do not provide the YG-programme for young adults, we see much earlier programme placements for 24-year olds than for 25-year olds. We attribute this to a policy target that per-

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<sup>7</sup> According to Sibbmark & Forslund (2005), 265 municipalities (out of 281) had signed an agreement with the regional labour market authority in 2004 and the ones that had not signed appear to have had a very small number of unemployed teenagers.

<sup>8</sup> Previously, the *development guarantee*.

<sup>9</sup> The unemployment clock starts ticking from the day the unemployed youth registers as a job seeker at the public employment service.





































