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Does active labour market policy work?

Lessons from the Swedish experience

This presentation is based on a survey¹ of all existing empirical evidence on the effects of active labour market policies (ALMP) in Sweden. Following convention, we look at the micro- and macroeconomic evidence separately. The microeconomic evidence – i.e. the effects on participating individuals – is divided into the effects of (i) job search assistance, (ii) labour market training, and (iii) subsidised employment. Also, we look separately at the effects for (iv) youth.

Evaluations of *Job search assistance* (JSA) that took place in the 1980s indicate that the fraction of all unemployed who received increased JSA were more likely to obtain a job than unemployed who received a regular amount of assistance. Also, they were more likely to obtain a good job – i.e. a permanent job, with advancement-possibilities. Regrettably, there are no evaluations of JSA that took place in the 1990s.

Evaluations of *Labour market training* (LMT) that took place in the 1980s show consistently positive results; participants were more likely than non-participants to be employed and to earn a fair salary at a later point in time. However, evaluations of LMT that took place during the 1990s indicate that the effects for those who participated during this decade were negative or, at best, insignificant. We believe that the negative results of the 1990s are explained by (i) an extremely low demand for labour, (ii) the size of training and (iii) the fact that LMT re-qualified participants for unemployment benefits.

Subsidised employment is an umbrella term for a large number of different programs, of which many share a common feature. ‘Wage subsidies’ are subsidies paid to a regular employer, who in return hire an unemployed at a ‘regular’ job for a limited amount of time. ‘Direct job creation’ include, by definition, “work tasks that would not have been performed in the absence of the program”. ‘Start-up grants’, finally, are subsidies paid directly to an unemployed who wants to start up his/hers own business. We find that unemployed who received start-up grants or wage subsidies were more likely to earn a living/be employed at a later point in time than comparable non-participants. However, participants in direct job creation schemes do not appear to benefit in terms of future employment-prospects.

Evaluations of *youth programmes* that took place in the 1980s show consistently positive effects. These evaluations are, however, based on small, non-representative samples and cannot be generalised to the entire population or to later points in time. Evaluations of youth programmes that took place in the 1990s provide a discouraging picture. At best, effects are insignificant. However, some results indicate that youth who participated in labour market programmes were less likely than comparable non-participants to be employed, earn a fair salary or attend regular education at a later point in time.

If instead we turn to the macroeconomic evidence – i.e. the effects of ALMPs on non-participants and society at large – we look separately at how

¹ *Does active labour market policy work? Lessons from the Swedish experiences* by Lars Calmfors, Anders Forslund & Maria Hemström, WP 2002:4, IFAU