

Comment on Barbara Sianesi: Swedish active labour market programmes in the 1990s: Overall effectiveness and differential performance

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The paper deals with a very important and controversial issue, namely how the relative effectiveness of the different options offered by Swedish labour market policy in the mid 1990s in terms of employment rates and benefit collection. The results from previous research have been somewhat mixed (see Calmfors, Forslund and Hemström, 2001) Some evaluations have indicated negative results from participation while other have found rather small positive effects. These somewhat disappointing results have led to a general feeling both within the labour market administration and among labour economists in Sweden that most programmes had no or only very small positive effects in the short and medium run. The best to hope for was that they tended to keep participants in the labour force ready to take a job when the demand for labour started to increase, thereby holding down inflationary pressure.

The paper by Barbara Sianesi to some extent confirms this view but also offers some positive evidence. The results indicate that:

- The programme package as a whole had a long lasting positive effect on the employment rate but also on the probability of benefit receipt. However, the positive results on the employment rate relate exclusively to individuals not entitled to employment benefits.
- Among the programmes there is a clear ranking in terms of employment effects so that measures close to regular work (*employment subsidies* and *the trainee replacement scheme*) are better than other programmes.

The differential result for individuals with and without benefits is a new and interesting finding. Sianesi interprets the result as evidence that the eligibility rules distorts the incentives for participation and wipes out the potential productivity-enhancing effects of the programmes. Programmes may be allocated on other grounds than pure

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efficiency considerations and participants may have weak incentives to search for a job when they participate in the programme. It is a very interesting result even if I think that it has to be scrutinized further before any firm conclusions can be drawn.

First of all, the comparison may not be a good test between a system with strong links between benefits and labour market programmes and a system without such links. The reason is that in 1994 it was possible to enter the benefit system through programme participation on condition that you were also a member of an unemployment insurance fund. This system was abandoned in 1996. After that only regular work qualified for benefits for the first time. But in 1994 even many of those not entitled to benefits at the beginning of the unemployment spell had strong incentives to enter a programme purely for benefit reasons.

Another reason to be careful is that the population of non-entitled adults is probably very heterogeneous in terms of attachment to the labour market and I think one cannot rule out selection on important unobservable characteristics. This could be a reason for the fairly large positive result for programmes among the non-entitled.

It would also have been interesting to see to what extent the different results for individuals with and without benefits depend on the programme mix and to what extent it also depends on different impact within the same programme. As Sianesi points out one large programme, ALU, was available only for those who were entitled to benefits. So there is definitely a difference in the programme mix. As she shows later in the paper, ALU is one of the low performing programmes. This may be an important reason for the difference in impact. Another question is to what extent the difference in impact depends on different characteristics within the two groups.

The results regarding the relative performance of the different programmes are very much in line with previous Swedish and international research (see e.g. Calmfors, Forslund and Hemström, 2001; and Martin and Grubb, 2001). This includes a rather poor record for labour market training (LMT) as well as some job creation programmes. An interesting question is why LMT has not worked during these years, noting that evaluations from the 1980s indicate a positive effect. One explanation that has been offered is that it was used to renew benefit eligibility. This was probably true in 1991 and 1992. After that this use (or abuse) of the programme is probably of little importance (for some evidence see Harkman, 2001). The main differ-

ence between the late 1980s and the 1990s is that the unemployment rate was much higher in the 1990s. It seems as if LMT works only in times of high demand for labour and low unemployment.

Less surprising is that some job creation programmes did not work well as a port of entry into employment. In spite of much criticism for low efficiency much resources were spent on this type of measure during the 1990s and a lot of people spent a lot of time in them. A significant share of the placements were motivated by the need to qualify for a new period of unemployment benefits. However, a majority of the placements had other motives and most participants had not been unemployed long enough to have an acute need to requalify for benefits. One motive was simply to reach the goal set by the government that a certain number of individuals should be placed in programmes.

The only type of programme that seems to work is employment subsidies. But in this case one can expect large deadweight and substitution effects, I also guess that the supply of positions in this kind of programme is rather limited in times of high unemployment. The overall conclusion seems to be that labour market programmes can do very little when the need for them is largest as in the deep recession in the 1990s.

Those who are more optimistically inclined can turn to Sianesi's two general explanations of the weak performance of the programmes. The first is that large scale may have prevented efficient management and tailoring of the measures. The second is that the link between the programme system and the benefit system has introduced bad incentives from an efficiency point of view. This offers two obvious ways to improve the system and improvements along these lines have also taken place in recent years. The programmes are scaled down and, as mentioned earlier, at least some of the previous links between the benefit and programme system have been cut. Labour market programmes cannot be used to renew benefit eligibility any longer. It remains to be seen what the impact of this will be. At the same time as the system has changed, general labour market conditions have improved and it may be difficult to isolate the impact of changes in labour market policies from the impact of an improving labour market.

References

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