Problems facing young people entering the labour market - the Nordic Countries

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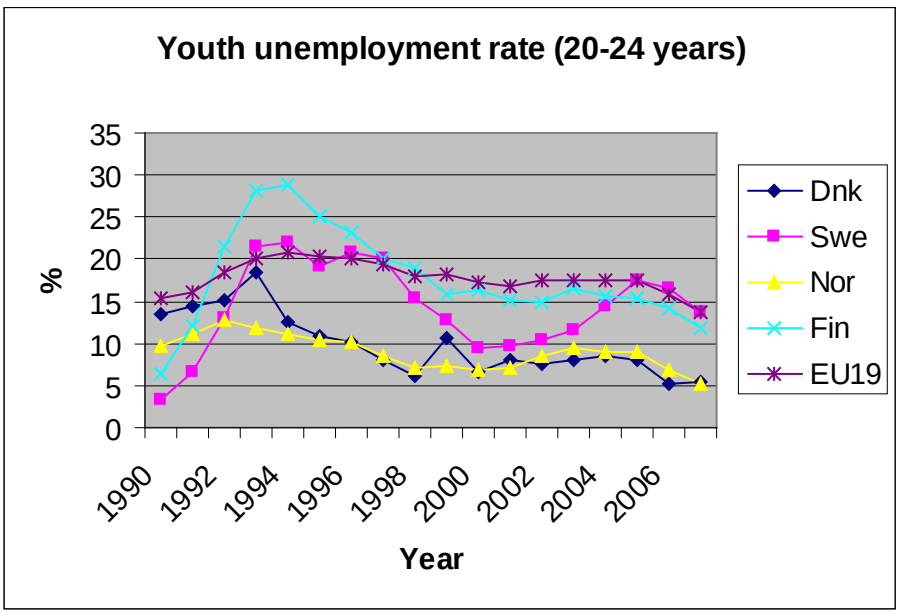
This contribution deals with the problems facing young people who are about to join the workforce. Two basic questions are posed: What do the unemployment figures tell us? What can be done to improve conditions for young people who are leaving school to start work? In this contribution, a short presentation of the Swedish and Danish "transitional regimes", i.e. the array of institutions and organisations that regulate the labour market conditions in respective country, is given. Moreover, there is an appeal for to consider the entire transitional regime when trying to improve the conditions in a country. You probably have to "shock" the system by changing several elements of the transitional regime at the same time, so that the renewed elements complement and support each other. Finally, two suggestions for Sweden are submitted. Steeper and more age-weighed wage scales: Lower wage around 20, higher wage around 60. "De-schooled" apprenticeship education: A greater part of the financial and administrative responsibility to the social partners.

Youth unemployment

To the outside world, the Nordic countries seem very similar to each other. That is not always the case, in particular considering the problems facing young people about to enter the labour market. The youth unemployment rate is a suitable measure of those problems in the respective country. This has developed in different ways since the crisis in the early 1990s (Figure 1). At that point it increased considerably in Sweden and in Finland, while the Danish

Figure 1



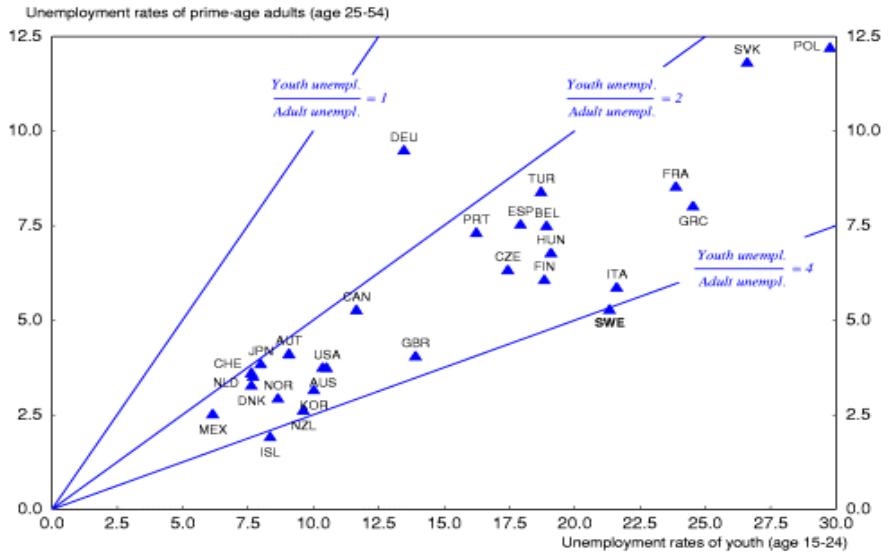
Source: OECD-Statistics, *LFS by sex and age*.

Prior to 2004, the level of unemployment among Swedish young people was somewhat underestimated in relation to that of the other OECD countries. Between 2004 and 2005 changes were implemented in data collection principles, which meant that improved comparisons with other countries could be carried out.

and Norwegian young people were not as badly affected. Moreover, the Swedish and Finnish youth unemployment remained at a higher level than the Danish and Norwegian for the rest of the period. In 2007, Sweden and Finland were at a relatively high level compared to Denmark and Norway (Figure 1).

Placing the Nordic countries in an international context in a given year (2006), it becomes clear that Denmark and Norway belong to into a group of countries with a low rate of youth unemployment; which is not the case for Sweden and Finland (Figure 2). Moreover, Sweden stands out not only by having the highest rate of absolute youth unemployment but also the highest rate of *relative* youth unemployment among the Nordic countries. The rate of unemployment of those aged 15-24 was approximately four times that of those aged 25-54 in

Figure 2. Unemployment patterns in 2006



Source: OECD, *Economic Survey of Sweden* 2008: Education and youth employment, p 91.

Sweden (Figure 2).

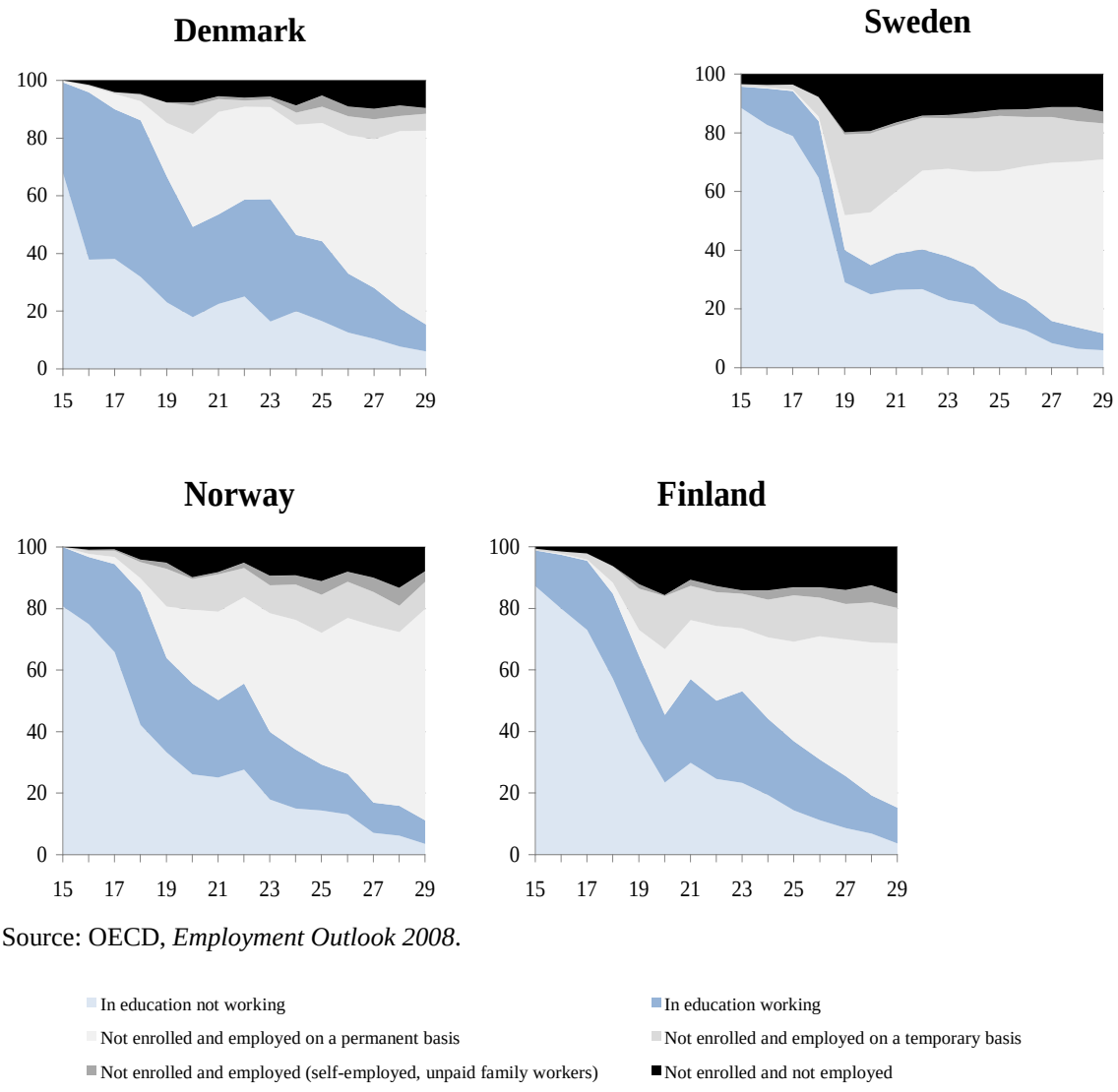
However, the rate of unemployment is a problematic measure. Among other things it is calculated as a percentage of the labour force, i.e. of those who neither study nor are inactive.[1] If there is a small number of young people in the workforce, the unemployment rate may be

[1] An inactive person neither works nor studies and is not registered as unemployed.

high even though a relatively small number of young people are affected. A high rate of youth unemployment may depend on the fact that a large number of those aged 20-24 are students.

Statistically, Denmark had a larger share of young adults in education than Sweden had in 2006 (Figure 3). In other words, the low youth unemployment in Denmark was

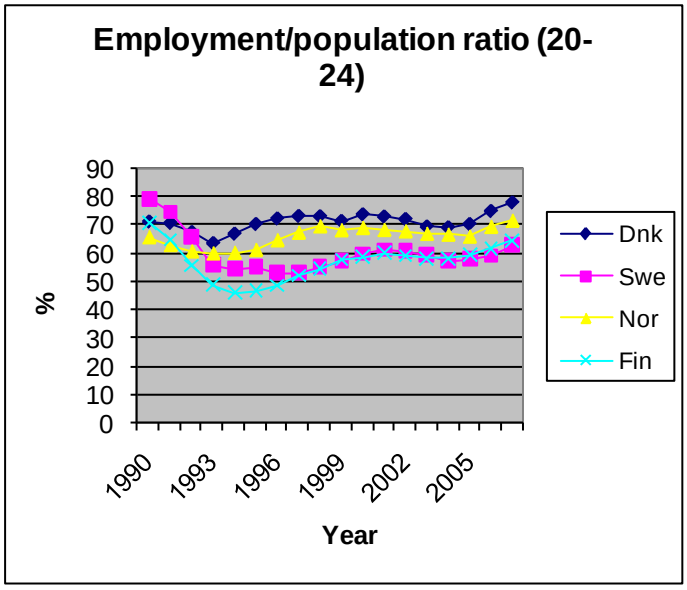
Figure 3. Activity status by single year of age in OECD countries 2006
(Percentage)



Source: OECD, *Employment Outlook 2008*.

probably not determined by a relatively large labour force. However, the problem is further complicated by a large number of Danish students "in education working". They support themselves by means of various kinds of part-time work. The line between students and workers is quite simply more "blurred" in Denmark than in many other countries and this complicates comparisons to, for instance, Sweden. These and some other problems imply that the Figures above should be supplemented by additional material and further information.

Figure 4



Source: OECD Statistics, *LFS by sex and age*.

Another measure is the employment/population ratio. Here the employed 20-24 year olds are calculated as a proportion of the entire number of 20-24 year olds (Figure 4). The reverse order of the countries in this Figure as compared to Figure 1, suggests that Figure 1 reflects the degree of problems experienced by young people who are about to enter the labour market.

However, another problem is concealed here. Apprentices, i.e. a group who alternate between education and employment, are counted as employees. This contributes to the lack of a clear boundary between school and work. They have a kind of temporary jobs. Although we could argue that apprentices are so much "insiders" that they should be counted as employed, even during school periods.[2] Still, a comparison between countries with well-developed

[2] According to the insider/outsider theory the employee is always protected by a type of transaction cost (labour turnover costs) on the labour market (costs for recruitment and training). This protection may be supported in

apprenticeship schemes, such as Denmark, and countries without them, such as Sweden, is to some extent misleading.

How should part-time and seasonal jobs be considered?

Studies on the activity status of young people which were carried out for 2006 for the OECD Employment Outlook (Figure 3) have a bearing here. What was previously mentioned is also reflected in these studies: The share of youngsters and young adults in the category "in education working" was considerably greater in Denmark than in Sweden for each age group in 2006. The fact is that part-time and seasonal jobs ("ungarbejde", "feriejobb" and "studentjobb") were, to a much greater extent, a part of the daily life of young students in Denmark than was the case in the other Nordic countries – and to a considerably greater extent than was the case in Sweden. This applied to the 20-24 year olds and especially to the 15-19 year olds (Figure 3).

My reason, however, for discussing the blurred line between work and education was not only to bring about some caution when dealing with unemployment statistics. It also brings a specific problem to the fore: How to consider young peoples´ part-time work? Two divergent ways of regarding student part-time jobs can be identified in the literature:[3]

1) One major advantage of students' part-time jobs is that young people acquire knowledge of, and contact with, the labour market, which is an advantage for their entry into the market later on.
2) Their studies suffer and are delayed. They could easily end up in the lower segment of a dual labour market, where they work in unqualified jobs for short periods, interrupted by short periods of unemployment.

Which statement is valid, 1 or 2? This, I will argue, is determined by the transitional regime that characterises the country in question. By transitional regime we mean the group of organisations and institutions that have created, and are creating, the conditions for the entry

different ways by contracts and legislation which further increase the transaction costs. Lindbäck A & Snower D (2002) The Insider-Outsider Theory: A Survey, *Discussion Paper* No 534, IZA.
[3] Off to a Good Start? Youth Labour Market Transition in OECD Countries, In *OECD Employment Outlook* 2008, s 34.

into the labour market.[4] I present my case by dealing mainly with the two countries that, from an institutional point of view, represent the extremes in the Nordic model, i.e. Sweden and Denmark.

Transitional regimes

A transitional regime has developed historically and determines the conditions for the transition of young people from school to work. For Sweden, the regime could be outlined as follows:

Initially – a large proportion of major industrial companies.[5] This contributed to the domination of social democracy, the formation of political blocs and a strong state with ambitions for planning. Trade unions became organised by industry. Broad, publicly financed, vocational education oriented towards certain businesses or areas and mainly school-based was established. Vocational education earlier adapted to national manpower planning. Creation of comprehensive programmes for non-successful pupils so they could "mature" and qualify for upper secondary school studies. Completed upper secondary vocational education gives formal access to higher education. Relatively small amounts of funds allocated for labour market measures for young people. Job protection entrenched in law. Relatively high starting salaries.

Denmark initially: a large number of small and medium-sized companies relying on local labour markets. This contributed to a relatively weak social democracy, and, to a greater extent than in Sweden, state power consisting of a cluster of compromising interests. Trade unions organized according to trade. Labour market parties with a relatively high degree of autonomy in the area of the regulation of vocational education. Extensive apprenticeships, the employers paying apprentice salaries. Local networks became important in employment and when acquiring apprentice jobs. Decentralised parties negotiated security of employment

[4] Here we follow Douglass North, who distinguishes between institutions and organisations. Institutions are the official and unofficial rules of society: laws, ideologies, conventions etc. Organisations are groups of individuals held together by a common striving to reach certain goals. He gives examples of companies, clubs, political parties etc. "Institutions in combination with the usual limitations of economic theory decide the possibilities which exist in a society. Organisations are created in order to exploit those possibilities" North D (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, p. 29.

[5] The nature of the Swedish vocational education, to a large extent, was determined by conditions in manufacturing industry.

legislation, combined with generous labour market policy for young people – "flexicurity". Low salary system for teenagers with part-time jobs.

These are institutions and organisations which have come to confirme and strengthen each other – complement each other. Combined they have come to determine the conditions for young people between education and work in the respective country. Politics to improve the conditions for young people between school and work in one of the countries, should be based on knowledge of these complementarities.

Vocational education at upper secondary school level, its character and content have naturally been important elements in the transitional regimes. Swedish vocational education, if we compare with that in Denmark, Norway or Germany, takes place mainly in school. On the whole, both the official and the unofficial system of rules in Sweden function in such a way that – apart from some holiday and part-time jobs – it keeps young people quite apart from working life. In every upper secondary school programme, provision is made for a compulsory 15 week period of practical work experience at a work place (APU), but this has been difficult to carry out in many programmes.

Young people in Denmark are in contact with the workplace in a very different manner. Mainly through the extensive apprenticeship schemes, but also via special agreements in several branches for those under the age of 18. This has sometimes been called "half pay under 18". In addition, the tradition of employing university students part time (studentmedarbejder) is of value.

Entry into the labour market in Denmark often takes place within the framework of local labour markets and with the help of local business networks, which means the employers and young people get to know each other. The role of the local Danish network in recruitment and acquiring apprentice jobs has been highlighted in various contexts.[6] The apprentice-system in particular, has been assumed to play a part in the creation and maintenance of trust-creating local networks consisting of businesspeople, customers, employees etc.[7] Previous shorter and unqualified spells in the workplace are probably important too, for the reduction of

[6] In for example Pedersen P J (2002) Första och andra generationens invandrare på den danska arbetsmarknaden, in *Välfärdspolitiska rådets rapport 2002*, "Arbete? Var god dröj"! Invandrare i välfärdssamhället, SNS.
[7] Pettersson L (2006) *Är Danmark bättre än Sverige? Dansk och svensk yrkesutbildning sedan industrialiseringen*, ØI-förlag, s 52-54.

information costs in the recruitment process in such an economy. These different kinds of work experience make the young Danes “insiders” to a varying extent. In addition, if a large proportion of the slightly older young people are apprentices whose temporary jobs are included in a planned career path - as in Denmark - the positive effects of the “mixed” work and education are further strengthened.

In countries characterised by the combination of an apprenticeship system and a vocational organisation principle, vocational education became an important instrument for the social partners’ own regulation of the labour market. Supply could, to some extent, be regulated in each part of the labour market by the social partners themselves. This is how the Danish vekseluddannelse (an education programme with alternating periods of school and work), both at the local and the central level, has largely been defined by the social partners. The state has drawn up detailed regulations and financed most of the activities, but in effect, the state has mainly effected compromises that have been agreed between the partners. The construction itself resembles a compromise. The partners have been able to decide the orientation, scope and content of vocational education to a considerable degree. However, unions have had to accept relatively low apprentice salaries. Employers have had to pay those salaries – even during the school periods.

In Sweden, with a relatively broad orientation in several vocational upper secondary school programmes, there was a greater spread of graduates into different professions/trades. It was more difficult for the partners, with the help of the courses, to regulate supply to each part of the labour market – with the exception of the building industry. On the whole, partners’ activity has been characterised by a lesser degree of autonomy, at least in issues concerning the scope and orientation of vocational education. Instead the state introduced vocational education into national planning early on (in the 1950s and 1960s). Expressions such as manpowerplanning and human capital became buzzwords in contexts of state planning and analysis. Another reason for the principal role of the Swedish state was that it financed the entire upper secondary school vocational education from an early stage. This has changed now. Since the early 1990s, local government has become a main player in the process.

Further elements in the Swedish transitional process are to be found in the job protection legislation. The dominating social democracy - closely allied with LO (the Swedish TUC) - was able, in the 1970s, to pass such a legislation. A weaker and more compromise-oriented

social democracy made a corresponding Danish legislation unimaginable. Instead, the concept flexicurity arose; flexible and generous unemployment benefits combined with a low degree of job protection. Added to which the labour market policy directed towards young people was very active, decentralised, and involved local partners. The country had a "…flexible and generous system of unemployment benefits, which made high mobility and a concept of relative economic security possible at the same time".[8] Probably flexicurity was facilitated by the Danish business environment being, to such a great extent, built around small and flexible medium-sized companies.

Several of the above-named elements in the programmes were later strengthened by different ideological features. One interesting hypothesis, which seems to have certain empirical support, takes up the emergence of extensive norms. An "early-exit-norm" is, for example, said to have arisen in countries such as Germany and Denmark. It concerned older workers leaving room for younger ones in the labour market. When unemployment became a periodically recurring problem, policy measures focused either on those about to enter the labour market or on those who were about to leave it. If there was an apprenticeship tradition, this supported a moral responsibility among older workers to leave room for younger ones. Something similar applied to employers. "….countries within the apprenticeship tradition may foster a comparatively strong sense of moral obligation for companies to employ younger workers, which in turn may promote a societal norm supportive of early retirement".[9] Above all, this would have applied to typically male segments of the labour market.

In Sweden, where there was no apprenticeship tradition, a "late-exit-norm" came to be created instead. Policy measures were aimed at creating opportunities for the older workers to stay in the labour market. If this statement is true, it also probably means that the employers' feeling of a "moral liability to employ young job-seekers" was relatively faint in Sweden, a country that favoured educational programmes – concentrating efforts to keeping young people at school.

In the formulation of the Swedish transitional regime it was assumed that laws relating to security of employment, as well as relatively high salary costs for young people, were a great

[8] Plougman P & Madsen P K (2002) Flexibility, Employment Development and Active Labour Market Policy in Denmark and Sweden in the 1990s, *CEPA Working Paper*, s 12
[9] Hult C & Edlund J (2008) Age and labour market commitment in Germany, Denmark, Norway and Sweden, *Work, Employment & Society*, no 22.

hindrance to their entry into the workforce.[10] This assumption is controversial. It has been put forward that the relaxing of LAS (*the Security of Employment Act*), with the introduction of employment on a temporary basis etc. has meant that there are now no real problems for young people.[11] Extensive research has been undertaken to test possible effects of low starting wages as well as of different elements in job protection. Below is a brief account of the results of a recent survey of research on the latter:

Security of employment has reduced the risk of dismissal. Employers have not side-stepped the system of rules to any great extent. However this has been at the cost of labour market thresholds being raised for people with weak links to labour market – often young people. "Moreover, research shows that the productivity-raising effects that strict security of employment can bring, in the form of greater investment in company-specific knowledge, does not seem to have been strong enough to counteract the negative productivity effects in the form of slower structural change and a reduced work intensity".[12] Both effects should influence the entry of young people into the workplace.

With regard to wage costs the research situation is even more difficult. A considerable number of attempts have been made to measure, for example, the minimum wage in different countries, after which tests have been made to try to find a possible connection between wage costs and different occupational variables. Results have been mixed. According to one research survey, Swedish starting salaries are high in an international perspective, even if different estimates diverge considerably.[13] This has made a Swedish research team, which has analysed first entry into the labour market, argue for a steeper salary development over age groups instead of "insensitive special solutions in the legislation" to make things easier for the young people. They are not arguing for a generally greater salary differential between different professional groups and work areas, "but for a re-allocation of incomes over time in work".[14] That is for lower starting wages and higher final wages, in order to give the young improved opportunities on the labour market, in relation to the old.

[10] Compromises between business area organisations and a centralised employer organisation, dominated by large companies, often leads to a relatively high and even wage level – to soldaristic wage formation. See Swenson P (2002) *Capitalists against Markets – The Making of Labor Markets and Welfare States in the United States and Sweden*, Oxford University Press.
[11] Erikson R, Nordström Skans O, Sjögren A & Åslund O, Fritt inträde? Ungdomars och invandrares väg till det första arbetet, *Välfärdsrådets rapport 2006*, SNS, s 153.
[12] Skedinger P (2008) Effekter av anställningsskydd – vad säger forskningen? SNS, s 117.
[13] Skedinger P (2006) Svenska minimilöner i den globala ekonomin, *Ekonomisk Debatt*, nr 4.
[14] Eriksson et al, s 154.

The reasoning is naturally to some extent naive. A basic feature of the Swedish model has been that productivity will be increased through wage formation that causes companies to invest in productivity-raising equipment, which later on can be taken care of by the young people who stayed at school, since there was no work for less-educated people. The combination of a highly productive workforce and highly productive equipment is thought to give the Swedish economy an advantage, so that a high level of employment can be maintained. *One* problem is, however, that all young people do not want to, or cannot, play the role they have been allocated. This model has been valid for quite a number of years now and the situation of young people on the labour market compared to that of older people seems to have worsened.

On the whole a review of the Danish and Swedish transitional process seems to suggest that Figures 1 and 2 mirror the situation of young people entering the labour market, at least as concerns the Sweden-Denmark ranking. Some of it probably depends on the institutional setting in Denmark, which allows young people to obtain, and profit from, part-time and seasonal work. It is the young Swedes that seem to end up in the lower segment of a dual labour market. Temporary jobs, interrupted by short spells of unemployment, were more common in Sweden than in Denmark among those 20-30 years of age (Figure 4).

Other elements that have newly emerged are a great variety of experimental and innovative local activities, mainly trying to make drop-outs and other potentially low-performers on labour market employable. These activities have partly grown from local dissatisfaction with the state-sponsored programs for the young but have also been partly financed from governmental sources (for instance the Navigator projects). Other financial sources have been EU (ESF), NGOs and local authorities. These activities contain some vocational training but their focus is on coaching and encouragement. They have turned out to be very personnel-intensive and difficult to evaluate.

There is of course more to say about the Swedish transformation regime. If we relate to Denmark, the institutional arrangements has resulted in high costs for young workforce, high transaction costs on the labour market due to job protection, small expenditures on labour market policy for young people, an education system that has kept young people outside the labour market and provided little contact between employers and prospective recruits etc.

These elements have in different ways complemented and corroborated each other. The result of this regime has been relatively high youth unemployment.

A “regime chock” is needed

If you have a transition regime, in which the different elements so consistently check young peoples´ entry on labour market, a “regime chock” is probably needed. Changes in many of the regime elements should be executed at the same time – and carried out in a way such that the renewed elements do not counteract each others.

We have mentioned the expanding local activities - coaching and encouraging young drop-outs and young people with some kind of disadvantage. Those activities could of course be expanded – and will probably be expanded during a crisis like the present one. However, for such an expansion to be successful other changes are needed. It is of limited use using more funding on these programs, if the young ones are out-competed as soon as they enter the ”real” labour market. To let age play a more important role in the wage scales - lower wages for those around 20 years of age and higher wages for those around 60 years of age – would probably address that problem to some extent. The Danish example, exhibiting the role played by teenagers´ part-time work, gives reason to include the teenagers in a more age-weighed wage formation system.

Another change taking place in Sweden just now (2009) is experiments with a Swedish variety of apprenticeship programme at the upper secondary school level. This is, however, not the first experiment with apprenticeship education in Sweden. The historical experience is that it tends to be crowded out by other forms of education. I will argue that, although the authorities this time have tried to adapt it to Swedish state of things, the new apprenticeship education is still too uncomplimentary to other elements in the Swedish transition regime. It will probably be administered by the usual upper secondary school administration. It will have to compete for resources with “higher education preparatory programs” and with traditional school-based vocational programmes. For instance: An apprenticeship education implies special demands on the timetable. Theory should, for instance, be actualized when practical experience and practical problems has revealed the need for it. It may be difficult to get respect enough for this and other needs in a local gymnasium school administration. Is it

too unrealistic to propose more of the Danish model? To give the social partners more administrative and financial responsibility over the apprenticeship programme?

That apprenticeship education should be carried out and administered by the industry the training is designed for is probably a valid recommendation not only for Sweden. To include the apprentices in the general upper secondary school organization is probably a blind alley.

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