

Chapter 4

Strengthening the demand for migrant skills in Sweden

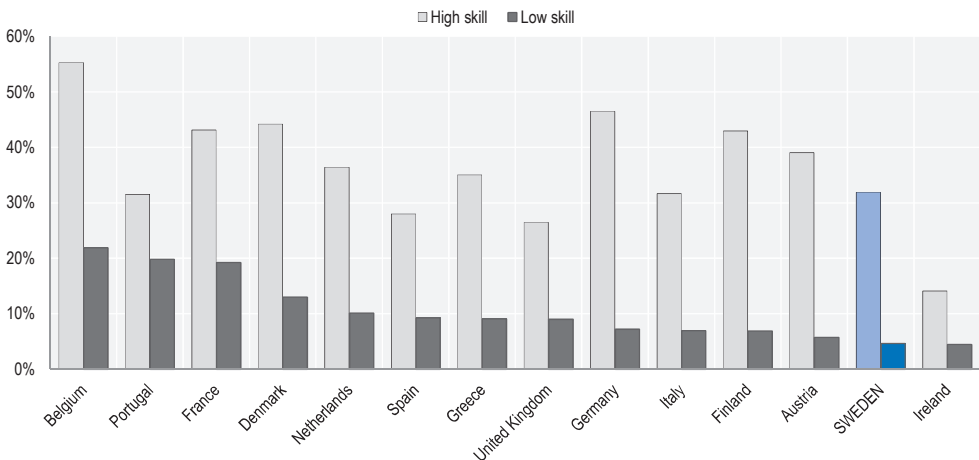
Demand for low-skilled workers is weak in Sweden. And while all low-skilled workers face this paucity of low-skilled jobs, migrants face particular hurdles. Private sector employers may be uncertain of how to assess qualifications and experience obtained abroad, and prefer to avoid the risk; they may be reluctant to hire migrants due to concerns over their productivity; or they may simply choose not to hire immigrant workers on the basis of discrimination. This chapter investigates these constraints on the demand for migrant skills as well as the policy responses that attempt to tackle them including wage subsidies and anti-discrimination policies.

There are many reasons why immigrants face additional hurdles on the labour market. Some, as outlined in the previous chapter, concern the skills immigrants supply to the local labour market. There remain other hurdles, however, that are not directly dependent on the skills of immigrants but, nonetheless, impact upon their returns to these skills. Policy aimed at addressing these hurdles must instead focus on the *demand* for the skills of immigrants.

Demand for low-skilled workers is particularly weak in Sweden. Employers have largely adapted to high wages by investing heavily in capital-intensive technologies, increasing labour productivity. Few firms have been able to operate in labour-intensive production and there is a concomitantly low level of demand for low-skilled workers. As mentioned in Chapter 1, fewer than 3.5% of native-born Swedes work in low-skilled occupations and, among respondents of the 2013 Eurofund European Company Survey the number of firms reporting difficulties recruiting low-skilled workers was among the lowest of all surveyed countries (see Figure 4.1). Given the number of low-skilled migrants in Sweden, this weak demand for low-skilled workers represents a challenge for integration.

Figure 4.1. Firms facing skills shortages in selected countries, 2013

As a percentage of all firms with ten or more employees



Note: Firms are classified as facing a skill shortage if their manager reports having difficulties filling jobs. Countries are sorted by the total skill shortage.

Source: Eurofund European Company Survey 2013.

While all low-skilled workers in Sweden face this paucity of low-skilled jobs, migrants face particular hurdles. Private sector employers may be uncertain of how to assess their qualifications or experience obtained abroad and prefer to avoid the risk; they may be reluctant to hire migrants due to concerns over their productivity; or they may simply choose not to hire immigrant workers on the basis of discrimination – either explicit or implicit. These challenges are unpacked in this chapter. Chapter 5 then examines, in more detail, those policies aimed at bringing more transparency to the value of qualifications and experience obtained elsewhere.

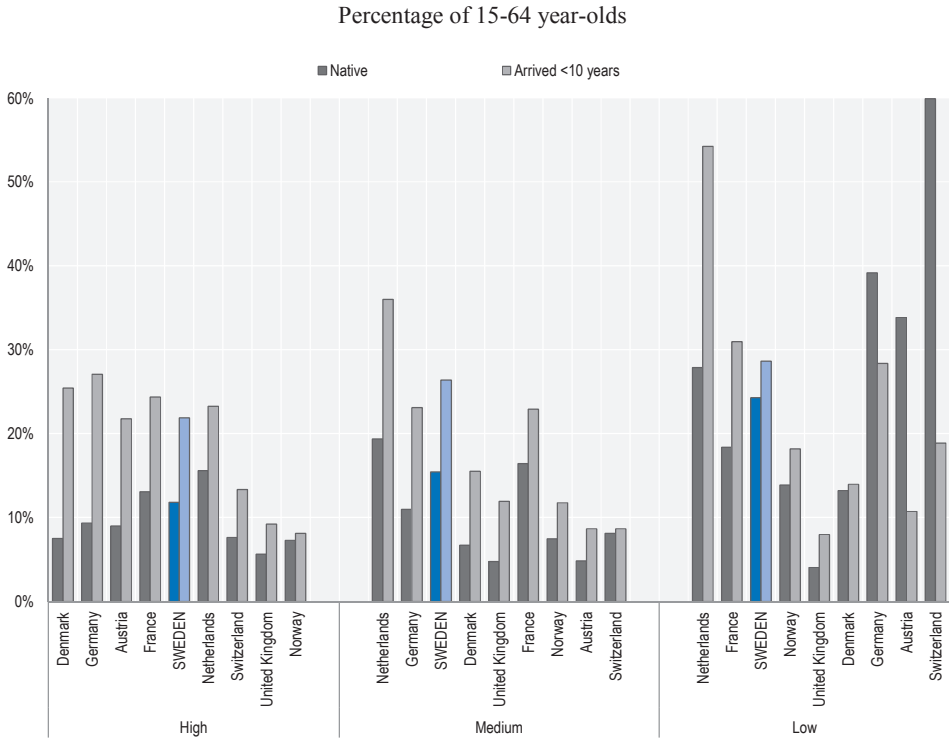
Working with employer incentives: giving migrants the chance to prove their skills

Heavy employment protection means that temporary employment can be an important route for migrants to prove their skills

Qualifications and experience are key to getting a job in any country. With qualifications that have often been obtained overseas (72% of Sweden’s migrants born outside the EU27 and EFTA countries were educated outside Sweden) and little or no local labour market experience, migrants are at a distinct disadvantage when it comes to demonstrating their suitability for a position. And employers are left with a greater degree of uncertainty over the quality of the education and experience of migrant job applicants. By allowing employers to reduce information asymmetries and screen workers without committing themselves to a permanent employment contract, temporary employment is able to mitigate the risk that accompanies this uncertainty.

In Sweden, as in many OECD countries, the foreign-born – and recent arrivals in particular – are hired on temporary contracts far more often than are their native-born counterparts. Figure 4.2 illustrates that, as in many OECD countries, this holds across the education spectrum, with larger disparities among high- and medium-educated workers. While 22% of highly-educated immigrants in employment who arrived within the last ten years are working on temporary contracts, the proportion of the native working population on such contracts is just 12%. The disparity among those with a medium education is larger still.¹

Figure 4.2. Proportion of workers on temporary contracts by education level in selected OECD countries, 2013



Note: Recent arrivals covers all those foreign-born who arrived within the past ten years. Countries ordered according to the disparity between the native-born and newly-arrived immigrants.

Source: European Union Labour Force Survey 2013.

While Sweden does not stand out as an outlier in the extent to which foreign-born workers are employed on temporary contracts, the relatively strict employment protection legislation for permanent employment means that temporary work may be particularly important to help new arrivals gain a foothold in the labour market. This is because the greater risk associated with hiring a worker with uncertain skills and qualifications may discourage employers from doing so. This can lead to a vicious cycle as reduced employer demand makes it even more difficult for migrants to gain Swedish labour market experience and demonstrate their skills. Studies explicitly investigating the impact of employment protection on immigrants are scarce (see Skedinger, 2011 for an exception). However research tends to find that the impact on the employment prospects of youth (who face similar

difficulties in gaining a first foothold on the labour market) tend to be poor. In this context getting a job, even a temporary job, may be a way to improve future employment prospects and provide a route out of this vicious cycle.

Past findings on whether temporary employment helps or hinders transitions towards permanent contracts vary. And while a large part of the literature in Europe and Australia suggests that temporary jobs are often stepping-stones to permanent employment this is often dependent on the type of work (see Booth et al., 2002 for evidence from the United Kingdom; and Buddelmeyer and Wooden, 2010, for evidence from Australia) and on whether such contracts are undertaken repeatedly (Gagliarducci, 2005). Recent research into the role of temporary employment has tended to find that among certain workers temporary work may in fact act as a stepping stone (see for e.g. Guell and Petrongolo, 2007), and while work examining the impact specifically on migrants has been limited, Jahn and Rosholm (2012) have found evidence of a positive impact among non-western migrants in Denmark.

In Sweden, despite the focus of introduction activities on early labour market experience, research on the impact of temporary employment on the probability of gaining a permanent contract has been limited. One of the reasons for this paucity of research is the lack of availability of detailed data on contract type.² However, the results of a recent employer survey conducted to gather the views of over 1 800 employers in Sweden found that most firms with refugees on their payroll report a positive experience and only 12% of those firms with experience of employing refugees in the past no longer have a refugee on their payroll (Lundborg and Skedinger, 2014). While this study was not explicitly focused on migrants on temporary contracts, it gives some indication that when employers have a chance to observe the skills of refugees, longer term employment can result.

Wage subsidies can help overcome hurdles created by temporarily low productivity and high minimum wages

When migrants first arrive in Sweden, their ability to productively use their skills in employment may be compromised by a number of factors such as limited language abilities, lack of familiarity with the Swedish labour market, and in some cases poor health. As a result the productivity of a migrant worker may temporarily be lower than the productivity of a comparable Swedish-born worker. While employers would normally respond to lower productivity by paying lower wages until productivity rises, collectively bargained wages in Sweden mean that employers are restricted in their ability to do this.

Collectively bargained minimum wages in Sweden are high by international standards. They are negotiated at the sector level via collective agreements between employers and unions and consist of an extensive set of wage floors that vary by occupation, age, tenure, and location. As a result of high coverage of collective agreements, these negotiated minimum wages effectively act as a wage floor, much as a legal minimum would (see Skedinger, 2010). These negotiated minimum wages are, along with those in other Nordic countries, among the highest in the world – both in absolute terms, and in relation to median wages.

Analyses of the employment effect of high minimum wages have produced a wide range of estimates (see Abowd et al., 2000; Skedinger, 2015; Stewart, 2004; Pacheco, 2011; and Allegretto et al., 2011). However, recent evidence focussing on those groups concentrated in low-wage work has tended to find a negative effect on employment. Using employee-employer matched data in the Swedish retail sector (which accounts for 12% of all employment in Sweden). Skedinger (2015), for example, finds that separations increase as minimum wages increase. In a similar vein, Neumark et al. (2012) find that employment at the lower end of the skill distribution suffers with increases in wages at the bottom of the wage distribution.

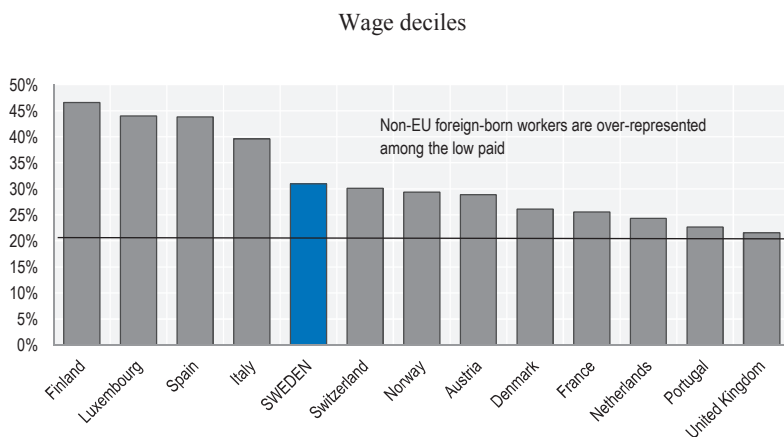
Foreign-born workers – particularly the low skilled – are often concentrated in low wage work. As such, alongside youth, immigrants are likely to be disproportionately affected by minimum wages. Figure 4.3 highlights the concentration of the foreign-born in low wage work in an international context; with over 30% of non-EU foreign-born workers working for a wage in the lowest quintile of the wage distribution, concentration in Sweden is higher than in most other countries with a minimum wage – such as the United Kingdom, Portugal, the Netherlands and France. When it comes to refugees, a recent employer survey conducted in Sweden found close to one third of refugees hired by surveyed firms were employed at the minimum wage (Lundborg and Skedinger, 2014).

Concerns about the impact of minimum wages on the employment prospects of youth in low-paid work have led many OECD countries to make minimum wages age dependent (see Gorry, 2013 on the impact of minimum wages on youth) and indeed, Sweden's collectively bargained wages are largely age dependent.

Similar to youth, newly-arrived immigrants have little experience of the Swedish labour market and, when minimum wages are high, they often struggle to gain an initial foothold. Indeed recent work using Swedish administrative data suggests that minimum wages increase unemployment among male refugees considerably – and more so than among a comparison group of young native-born individuals (Lundborg and Skedinger, 2014b).³

This effect remains significant even when accounting for spatially heterogeneous trends and the inclusion of industry-specific trends. When the sample is restricted to those refugees from Iran, Iraq and the Horn of Africa who have been resident in Sweden for fewer than ten years the estimated impact is even stronger.

Figure 4.3. Concentration of non-EU foreign-born workers in the lowest wage quintile in selected OECD countries, 2014



Note: Hourly wages refer to cash income and are calculated on the basis of number of hours worked a week, and reported number of months worked in the previous 12 months.

Source: EU Statistics on Income and Living Conditions (2014).

Where employer reluctance to hire migrants stems from concerns over the productivity in the context of high effective minimum wages, labour market policies can work to overcome these demand side hurdles through the use of employer incentives such as wage subsidies. In recent years, Sweden has been among the OECD countries making the most use of this type of active labour market policies.

While employment subsidies have been used to support employer demand in OECD countries, they are relatively expensive and are frequently criticised on the basis of the deadweight loss they can impose if subsidised employees displace regular employees.⁴ At the same time, recent meta-studies tend to find that carefully targeted employment subsidies can have positive impact on long-term employment prospects of those they target (see for example Kluge, 2010; and Card et al., 2015). And research in Sweden has found that, while results for some active labour market policies (such as labour market training) have been discouraging, wage subsidies have proven to be a successful measure. Indeed Sianesi (2008) finds that

entering a wage subsidy programme significantly pays off; higher employment rates are observed both when the programme ends (35 percentage points) and up to five years on (20-25 percentage points) when compared to continued job search from unemployment.

Access to short-term subsidised employment may be particularly important for immigrants' long-term employment chances, as labour market participation gives them the opportunity to strengthen language skills and labour market knowledge while, at the same time, serving as a positive signal to future employers. Indeed, several recent studies confined to examining the impact of subsidised employment on immigrant labour market outcomes have identified positive and significant effects of subsidised employment on post programme employment outcomes. In Denmark, for example, a study by Clausen et al. (2009) found that subsidised employment had a significant effect on the employment outcomes of *newly-arrived* immigrants (a reduction in the duration of unemployment of about four months over a four-year period) while, more recently in Denmark, Heinesen et al. (2013) find that, among all ALMPs examined, employment with a wage subsidy has the largest effect on the hazard rate from social assistance into regular employment among non-western immigrants.

Research into the specific impact of wage subsidies on the foreign-born have been limited in Sweden, and while several papers have identified positive impacts of subsidised employment in combination with intensified matching (see Joonas and Nekby, 2012 as well as Åslund and Johansson, 2011) only Liljeberg et al. (2012) have looked separately at the impact of wage subsidies on the employment prospects of non-Nordic citizens. The authors identify a positive impact on post programme employment outcomes both for native programme participants and for those with non-Nordic citizenship.⁵

In order to strengthen the demand for migrant labour, employers hiring immigrants in Sweden are able to benefit from a number of subsidised employment schemes (see Box 4.1). In the first place, "Step-in Jobs" (*instegsjobb*) provides those employers who hire newly-arrived migrants with a subsidy of 80% of wage costs. Intended to ease the transition into regular labour through building language and labour market experience, a central requirement of the programme is that participants undertake SFI alongside their work, and that the employment contains an element of mentorship. Almost all migrants on the introduction plan are eligible for "Step-in Jobs", and referral is via the PES, who recommend the support for six months at a time. After the initial six months, if the programme conditions are still met, the programme can be continued for up to 12 months (or 24 months if the work is part-time). The average duration of a "Step-in Jobs" position, the majority of which are full-time, was nine months in 2012.

Box 4.1. Swedish policy at a glance: Employment subsidies for immigrants

Language difficulties, alongside lack of Swedish labour market experience can temporarily impact upon the productivity of new arrivals in employment. No more is this true than in Sweden where high collectively-bargained minimum wages essentially act as wage floors meaning that employers are unable to respond to lower productivity by offering lower wages in the short term. As a result, newly-arrived immigrants often struggle to gain an initial foothold in the labour market. To combat this hurdle there exist several wage subsidy programmes to encourage employers to hire migrants. Most notable among these are “Step-in Jobs” and “New Start Jobs”.¹

	Step-in-jobs	New Start Jobs
Eligibility	<p>Refugees and their family who arrived in the preceding three years</p> <p>The family of labour migrants from third countries and other family migrants under certain conditions</p> <p>To be eligible it is also necessary to:</p> <ul style="list-style-type: none"> - be over 20 years of age and registered as a jobseeker at <i>Arbetsförmedlingen</i> - study Swedish for immigrants (SFI) while working. 	<p>Refugees and their family who arrived in the preceding three years</p> <p>The family of labour migrants from third countries and other family migrants under certain conditions</p> <p>The long-term unemployed (including the native born)</p> <p>To be eligible it is also necessary to:</p> <ul style="list-style-type: none"> - be over 20 years of age and registered as a jobseeker at <i>Arbetsförmedlingen</i>
Subsidy amount	<p>Up to 80% of wage costs</p> <p>Capped at SEK 800 (EUR 86) per day.</p>	<p>Provides a tax relief equivalent to double the employers' social security contribution (this represents 46% of wage costs for persons over 26)</p> <p>The employer receives compensation for that part of the wage that is up to SEK 22 000 per month for full-time work</p>
Duration	<p>The PES decides on support for up to 6 months at a time</p> <p>Support may be renewed up to a maximum of 12 months (or 24 months if employment is part-time)</p>	<p>Employers may be compensated for up to 12 months for the long-term unemployed or the first three years following the issuance of a residence permit among new arrivals.</p>
Referral	<p>Referral to the programme can be made by the PES, on the request of an employer or upon request of a migrant</p>	<p>The subsidy is a right for all employers hiring an eligible employee, does not require PES referral.*</p>
Additional entitlements	<p>Contract must conform with collective agreements (for example insurance)</p>	<p>Entitles employee to state unemployment benefits</p> <p>Contract not required to conform with collective agreements</p>
Additional requirements	<p>Must be combined with SFI, Swedish as a second language, or vocational Swedish courses.</p>	

*. Though the PES should verify that requirements are met and decide upon the length of the subsidy.

Alongside these subsidised wage programmes, “Apprenticeships for new arrivals” compensates employers for on-the-job coaching costs and the “Applied basic year” funds low educated new arrivals with training on the job.

In addition, a new form of subsidised apprenticeship “Trainee Jobs” is now available for young people, aged 20-24, with a complete upper-secondary education. Trainee Jobs may last up to two years and employment will be subsidised at a rate that depends upon the sector. Support for supervision of the trainee is also provided up to a maximum of SEK 2 200 (EUR 238 per month).

1. The eligibility requirements have been summarised for brevity. New Starts jobs are also available for other vulnerable groups on the labour market.

In addition newly-arrived migrants are eligible for subsidised employment under “New Start Jobs” (*nystartsjobb*). New start jobs is a wage subsidy which aims to increase employment among the long-term unemployed and those who have become distant from the labour market. While not specifically targeted at migrants, new arrivals are eligible for support under “New Start Jobs” for three years from the date of the decision on their residence permit.⁶ Indeed the foreign-born are relatively well represented among “New Start Jobs” participants, and while the foreign-born represented just 21% of the long-term unemployed in 2015, they accounted for 50% of “New Start Jobs” participants in the same year.⁷

Employers are required to pay “New Start Jobs” employees according to the collective agreements in the industry. However, unlike the “Step-in Jobs” positions, since 2009 there has been no requirement that contracts established under “New Start Jobs” are compliant with collective agreements.⁸ “New Start Jobs”, provide a lower subsidy to employment than “Step-in Jobs”, and are generally accessed by individuals who are closer to the labour market than those targeted under “Step-in Jobs”.

Assessing the impact of these wage subsidies on the employment outcomes of participants requires an estimation of the non-intervention outcome; the deadweight loss that results from the fact that a number of the participants would likely have found employment even had they not participated in the programme. Accurate estimation of such non-intervention outcomes is complicated, in the first place because there is likely some degree of selectivity into the programme and in the second place because the scenario of no intervention to which it refers is rarely observed among newly-arrived migrants.⁹

Nevertheless, in an attempt to gain an understanding of the employment impact of the programme (as measures in a follow up three years following the end of the programme), a recent report by the National Audit Office (Riksrevisionen, 2013) has estimated the employment probability of participants and eligible non-participants on the basis of their observed characteristics. The results of this work suggest that, “Step-in Jobs” has a positive, significant and sizeable impact (an 18 percentage point increase) on the probability of employment when employment subsidised under “New Start Jobs” was included in the definition of employment.¹⁰

Given that “Step-in Jobs” is targeted at those whose limited language skills means that they are further from the labour market, the increase in the probability that “Step-in Jobs” participants move on to participate in “New Start Jobs” (under which the employer contribution increases by an average of 108%) can be seen as a positive outcome. Participants of “Step-in Jobs” earn an average wage that is just 71% of the average wage earned by the

foreign-born participants of “New Start Jobs”. And, given these wage disparities and the disparate subsidy rates, the average employer contribution to the wage of a “New Start Job” is 108% higher than the employer contribution to a “Step-in Job”. As a result, the movement towards employment of these, more distant, workers can be viewed as a positive outcome.

In addition to this direct employment effect of the “Step-in Jobs” programme, the NAO report found that, those “New Start Jobs” participants who had previously held a “Step-in Job” were significantly more likely to have obtained unsubsidised employment three years following the end of the programme than those who had participated in “New Start Jobs” alone. The probability of finding unsubsidised work among those who undertook a “Step-in Job” followed by a “New Start Job” was increased by 6.3 percentage points. Those who undertook the “New Start Job” in isolation, on the other hand, experienced no significant increase in their probability of employment three years later. When the definition of employment is widened to include non-standard work, the marginal effect increases to 15.1 percentage points (compared to 7.7 percentage points among those who participated only in the New Start programme alone).

This combination effect may partially be driven by a duration effect – those who participated in both programmes will have undertaken subsidised employment for a longer period than those who participated in “New Start Jobs” alone. Indeed, a recent paper exploiting the age discontinuity implied by Swedish policy that permitted longer subsidised employment for those over 55 identified a positive post-programme employment effect associated with the duration of the available subsidy (Sjögren and Vikström, 2015). Furthermore, the effective reduction in the wage subsidy that arises as a participant moves from one programme to the other is a relatively cost efficient method of increasing duration.

In the context of out-of-work benefits, net wage subsidy costs do not appear to be particularly high

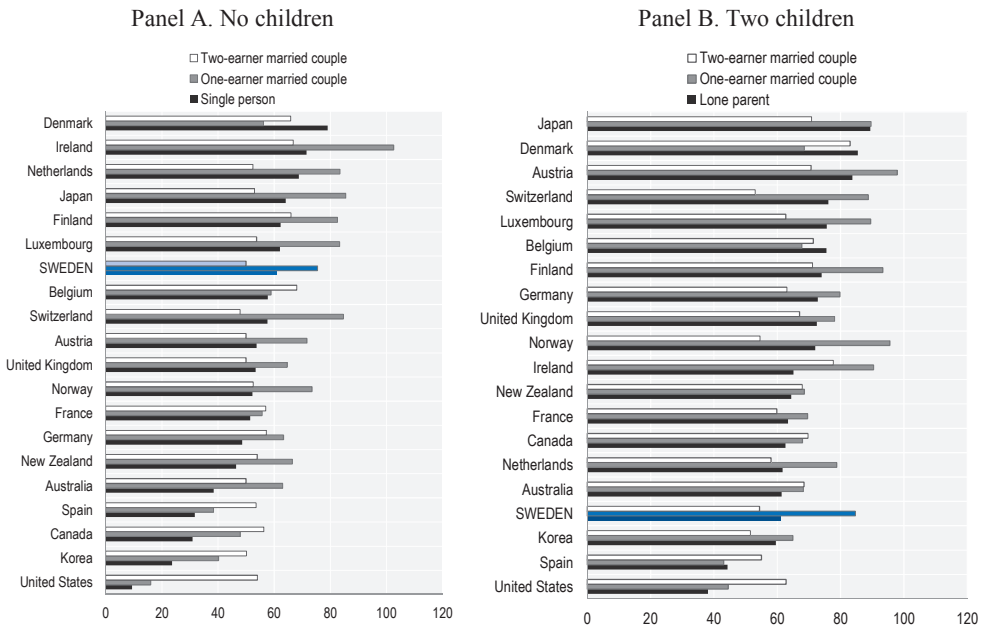
Alongside the benefit that accrues in terms of increased employment probability at the end of the programme, subsidised employment can be particularly beneficial for newly-arrived migrants because early employment facilitates the acquisition of country specific human capital – such as language skills and local labour market experience – as well as the formation of the networks that are so important in the Swedish labour market.

While subsidised employment schemes can appear expensive, it is important to put these expenses in the context of the welfare savings that

moving individuals into employment entails. The net replacement rates for the long-term unemployed are relatively high in Sweden (see Figure 4.4) and as such moving an individual into employment, even if the majority of their earnings are paid from the public purse, is less costly than it might initially appear.

Figure 4.4. Net replacement rates for the long-term unemployment, by family type, 2013

Calculated on the basis of earnings at 67% of average wages



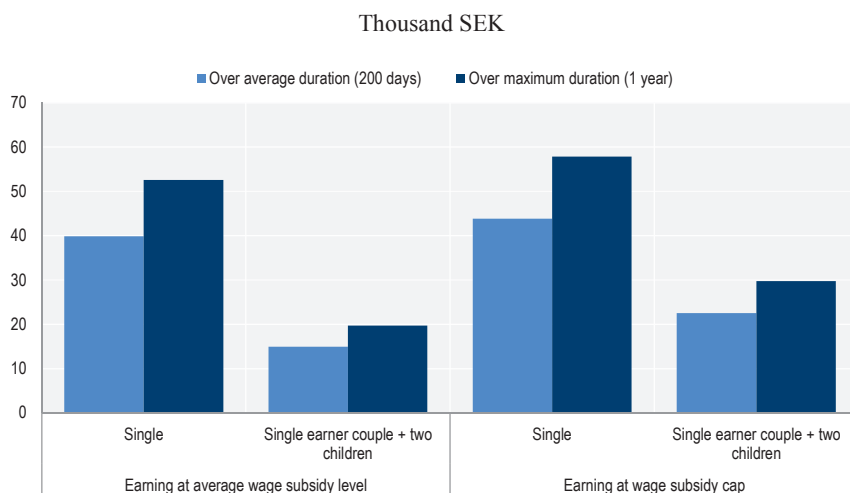
Note: Assumes family qualifies for cash housing assistance or social assistance “top ups” if available. Where amount of social assistance is locally dependent (as in Sweden) a representative region is used.

Source: OECD tax-benefit models, <http://www.oecd.org/social/benefits-and-wages.htm>.

Indeed the approximate net cost of moving an individual from long term unemployment into subsidised work under “Step-In Jobs” ranges from SEK 14 300 to SEK 57 800 depending on the family circumstances, the wage of the subsidised position, and the duration of the programme. The lower of these figures refers to the case in which the individual moved into work is living as part of a two parent family with two children and is the only earner in the family. This figure is estimated on the basis of the average

wage of a programme participant in 2015 for a position that lasts for the average duration associated with the programme in the same year. The figure at the upper end of the estimated net cost band refers to an individual living alone moved into employment earning a wage equal to the subsidy cap for the maximum duration of the programme. In-work tax and benefits are estimated according to the income assumptions, outlined in the Appendix, while out-of-work benefits are estimated according to family situation of the participant (see the Annex A for more details of the calculation and for more disaggregated scenarios).

Figure 4.5. Estimated net costs of a Step-in Job position, 2014



Source: OECD Secretariat calculations on the basis of OECD tax-benefit models, and data provided by Arbetsförmedlingen (Swedish PES).

To put these numbers in context, in 2013 the costs involved in the provision of Swedish for Immigrants courses varied from SEK 23 000 to SEK 66 000 per student per year across the country.

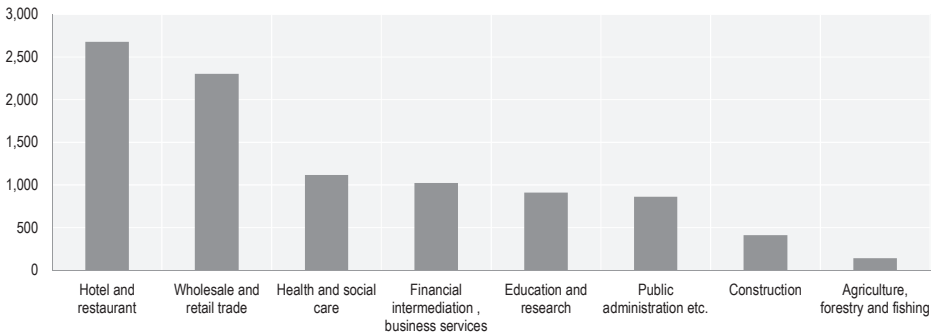
However, take-up of the programme has been limited

Step-in Jobs was designed not as a pure wage subsidy but as a complete programme combining education and work – preferably in the field of education or skill of the immigrant in order to enable newly-arrived immigrants to gain a foothold in the labour market to facilitate their early integration. The labour market hurdles that these demand side employment programmes hope to tackle – limited language skills and lack of Swedish

labour market experience – are hurdles that new arrivals must overcome, whether they are high- or low-skilled. And the goal of the programme was to reach immigrants across the education spectrum enabling them to combine language learning and workplace experience.

The cap on the subsidy accessible under “Step-in Jobs” limits the effective subsidy available for employers hiring more qualified workers. For those hoping to hire workers – even at the average wage in Sweden – the level of the subsidy falls significantly below the headline 80% of wage costs, and indeed, the lack of differentiation observed in the wages according to the level of education of the participant – as illustrated in Figure 4.7 – suggests that many tertiary educated participants of the programme may be undertaking work for which they are overqualified.¹¹ As a result most employment created under “Step-in Jobs” is in sectors employing predominantly low-skilled workers such as the hospitality and retail sectors which account for 33%, and slightly below 15%, of “Step-in Jobs”, respectively (Figure 4.6).

Figure 4.6. Number of participants in Step-in Jobs, by sector, 2015

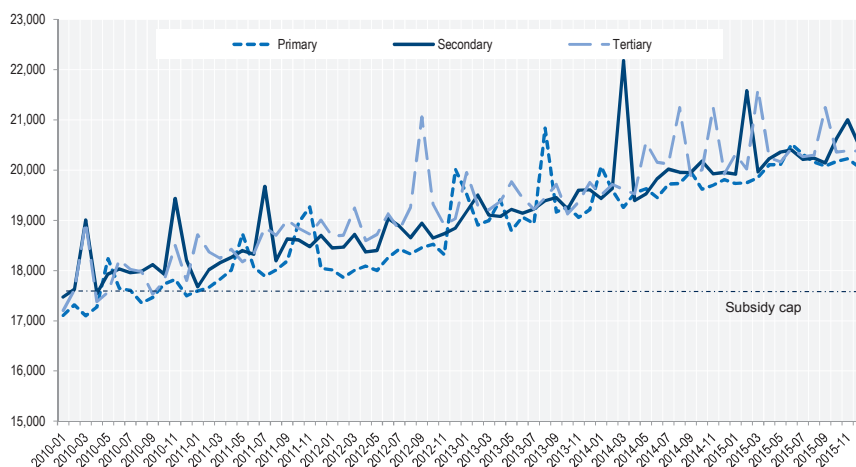


Source: Arbetsförmedlingen (Swedish PES).

Take-up among newly-arrived migrants of positions covered by these wage cost subsidies remains limited. In 2013, only 8% of introduction plan participants were employed under “Step-in Jobs” (or 13% among those who have participated in an introduction plan for 18 months or more).¹² There are a number of reasons behind the limited take-up of wage cost subsidies provided under “Step-in Jobs”. In the first place, “Step-in Jobs” is designed for recent arrivals who are often far from the labour market and who may, initially, need additional supervision as a result of limited language skills. Indeed, in a survey conducted by the National Audit Office, 33% of employers employing a “Step-in Jobs” worker felt that the level of Swedish

of “Step-in Job” employees was insufficient (Riksrevisionen 2013). Additionally the requirement that “Step-in Jobs” participants undertake SFI language training concurrently is likely to compromise their productivity still further. The compensation for this lowered productivity, in the form of the more significant subsidy (set to reimburse 80% of wage costs – compared to the equivalent of 46% of wage costs covered under “New Start Jobs”) is undermined by the wage cap which has meant that, on average, in 2015 “Step-in Jobs” positions were compensated at a rate of 68% of total wage costs.¹³ Alongside this, as wages have been rising the cap on the maximum subsidy available under “Step-in Jobs” has remained constant at SEK 800 per day – among the lowest of all subsidised wage programmes in Sweden. As a result, as wages have risen, the programme has become less financially attractive to employers in recent years (see Figure 4.7).

Figure 4.7. Average total take home wages of Step-in Jobs participants, by education level, 2010-15



Source: OECD Secretariat calculations on the basis of data from Arbetsförmedlingen (Swedish PES).

In the second place hiring a worker under “Step-in Jobs” involves additional costs on top of wage costs that undermine the attractiveness of the programme. These additional costs accrue due to requirements that *all* employees within a company employing a “Step-in Jobs” worker must be covered by insurance in line with collective agreements while, since 2009, contracts arranged under “New Start Jobs” are not required to provide benefits and insurance equivalent to those mandated under collective agreements.

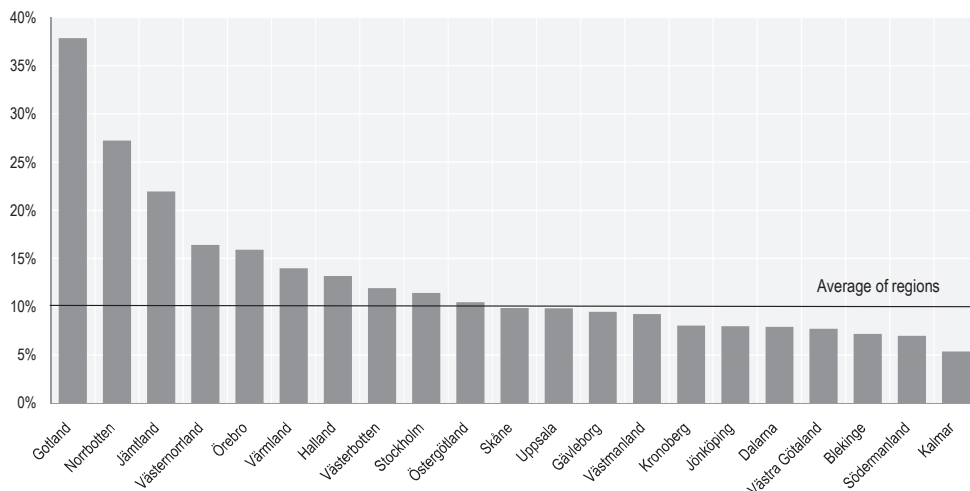
The administrative costs borne by the employer are also non-negligible. When applying for a “Step-in job” subsidy the employer must submit a document describing the terms of reference, a supervision plan and a description of how the employer will enable the employee to combine the work placement with SFI. In contrast “New Start Jobs” is open to all employers hiring an eligible worker.

Beyond the costs involved in hiring an immigrant worker under “Step-in Jobs”, the limited take-up of the programme is also due to the fact that, in many cases, employers are not aware of their eligibility to the subsidy. Indeed a recent survey of PES advisors conducted by the National Audit Office found that 45% felt take-up was stymied by lack of awareness of the programme among employers (Riksrevisionen, 2013). The role of the PES in raising awareness and take-up of the “Step-in Jobs” programme is compromised by the administrative costs involved in arranging a placement. The PES is currently tasked with: i) approaching employers to identify suitable work opportunities; ii) verifying that the employer is covered by the suitable insurance and that the contract complies with the relevant collective agreements; iii) consulting with the unions regarding the quality of the employer; iv) authorising the work, the duration of support, the tasks to be undertaken and the extent of SFI study that should be undertaken alongside the programme; and v) arranging the SFI to fit in around the employment. A further administrative burden is created by the requirement under “Step-in Jobs” that the conditions for support be renewed after six months (compared to after one year under positions funded under “New Start Jobs”).

While this administrative work plays an important role in minimising abuse of the system, the amount of work is substantially higher than that involved in other subsidies, such as New Start Jobs which is a general employer entitlement (such that any employer can hire any long-term unemployed person and apply for the subsidy) rather than available only for hiring individuals referred to the employer by a PES counsellor. One result of this heavy administrative burden seems to be to limit the number of referrals the PES make to the programme, and the degree to which they are able to actively reach out to employers. Indeed, the use local PES branches make of the scheme varies widely across the country (Figure 4.8).

Figure 4.8. Step-in Jobs participants as a percentage of Introduction Plan participants, 2014

Percent of new arrivals aged 18-64 arriving in region in the two years preceding



Note: “Step-in Jobs” participants refers only to those participants undertaking a “Step-in Jobs” placement as part of their Introduction Plan.

Source: OECD Secretariat calculations on the basis of data from the Arbetsförmedlingen (Swedish PES) and Statistics Sweden.

If the “Step-in Jobs” programme is to reach a scale to make it relevant in the context of the large numbers of recent arrivals it may be necessary to relax some of these restrictions and to endow employers with the flexibility needed to make using the scheme commercially worthwhile. In addition the impact of the administrative burden on the number of referrals may be addressed by separating the tasks of verifying the contract complies with collective agreements, and authorising the duration of support from the task of referral to the programme. The separation of these administrative tasks would not only allow the PES caseworker space for greater interaction with employers but would also counter any disincentive that may result from the extra administrative work that accompanies referral.

...and poor co-ordination with other subsidies risks undermining efficiency of subsidy packages

In order to enlarge the scope and effectiveness of these wage subsidy schemes, since November 2015 the PES has begun marketing subsidised wage programmes as a package under the “Sweden Together” initiative. The proposal is that employers should be able to hire a worker initially as an intern, then as a subsidised worker under “Step-in Jobs” and finally under the “New Start Jobs” subsidy. The idea behind this package of subsidies – of a wage subsidy that is eroded with tenure – is an important one. However, if “Sweden Together” is to achieve a scale at which it can be a key tool in the integration of the foreign-born it will be important to streamline the programmes involved. This will involve streamlining the wage subsidy caps and the basis of subsidy calculations – to ensure that the subsidy is eroded smoothly over time, and streamlining the insurance requirements – to ensure that disparate and cumbersome administrative requirements do not deter employer engagement.

As a less-costly alternative to wage subsidies, the cost of hiring newly-arrived humanitarian immigrants can also be lowered by the partners agreeing to a temporary training contract at a lower rate than the collectively agreed wage level. This is currently not possible. Allowing for a temporary training contract at a reduced rate, may be a less costly alternative to wage subsidies in the face of the large numbers of refugees arriving in Sweden in the current crisis. Such a contract could apply to newly-arrived refugee workers; in the same way that some countries have adopted training contracts (or separate minimum wages) for young workers.¹⁴ Such a reduced rate would need to be temporary and phased out with tenure.

Alternatively greater differentiation in the collectively-bargained wage floors – which currently depend upon the age and experience of the employee – could be considered. The extent of these wage floors currently vary according to age and experience, is dependent upon the industry, however, agreements do not explicitly state how experienced gained abroad should be treated. Allowing wage floors to respond more elastically to Swedish labour market experience, or to documented language skills, may help migrants overcome this barrier to labour market entry.

Internships and apprenticeships have been limited in their scale

Unpaid temporary work – in the form of internships and apprenticeships – can be a good way to give new arrivals the chance to demonstrate their skills and gain early experience of the labour market. In Sweden there are a number of such programmes, some of which are targeted

particularly at participants of the introduction programme while others are open more generally to the long-term unemployed.¹⁵

The “Apprenticeship for new arrivals” is one such programme, targeted at participants of the Introduction Programme with limited Swedish labour market experience. The “Apprenticeship for new arrivals” can be used to support introduction programme participants wishing to enter a new profession, or those entering a profession in which they already hold experience gained abroad. The programme, which can last for a maximum of six months, or until the end of the introduction activities – whichever comes sooner – is free to employers and the participant continues to receive the introduction benefit. Furthermore, under the programme employers are compensated a total of SEK 150 per day to cover the cost of providing support and mentorship. Alongside this, the “Applied basic year”, targets participants of the introduction programme who are over 30 years old and have attended less than nine years of education. The programme, which runs from between 6 and 12 months, incorporates a requirement that practical training on the job should complement by theoretical education (including language training) in order to deepen the participants professional knowledge. Employers who offer work placements under the “Applied basic year” are compensated at a rate of SEK 200 per day to support the costs of supervising the apprentice and providing on the job training. At the same time the PES is responsible for procuring the theoretical education undertaken as part of the programme. As under the “Apprenticeship for new arrivals” participants are unpaid but continue to draw their introduction benefit for the duration of the programme.¹⁶

Participation in both of these programmes, however, has been limited. In January 2016, 1 022 people took part in “Apprenticeship for new arrivals” and only 49 took part in “Applied basic year” – such that together they account only for approximately 2% of individuals enrolled on the Introduction Programme participants. Combining education and practical on the job training – as is envisaged in the applied basic year – can be an important tool in working towards sustainable employment (see for example Chapter 3 for a discussion of the career pathways approach adopted in the United States). However such combined programmes must be built upon sound co-ordination between education providers and the employment services, procuring theoretical education on an *ad hoc* basis for a very limited number of participants is neither scalable nor cost efficient. In addition, while some targeting may be necessary to help new arrivals overcome additional hurdles they face – such as lack of contacts within the Swedish labour market – excessive restrictions on the target population are likely to further reduce the scope of programmes, and indeed, when it comes to the “Applied basic year”, PES caseworkers report difficulties in

identifying candidates that meet the age and education requirements, and can complete the programme for its full duration. Alongside these targeted programmes, introduction programme participants are also eligible to participate in internships available more widely for the long-term unemployed. However participation is again limited. In January 2016 only 1 376 individuals undertook internships of this sort as part of their introduction activities – accounting for a further 2% of participants enrolled on the Introduction Programme. With the launch of the “Sweden Together” initiative, discussed above, the PES has enhanced efforts to reach out to employers to propose the uptake of these internships. This is an important step in the right direction and these efforts will need to be prioritised to ensure that the majority of introduction programme participants are given some experience of the labour market prior to the end of the programme.

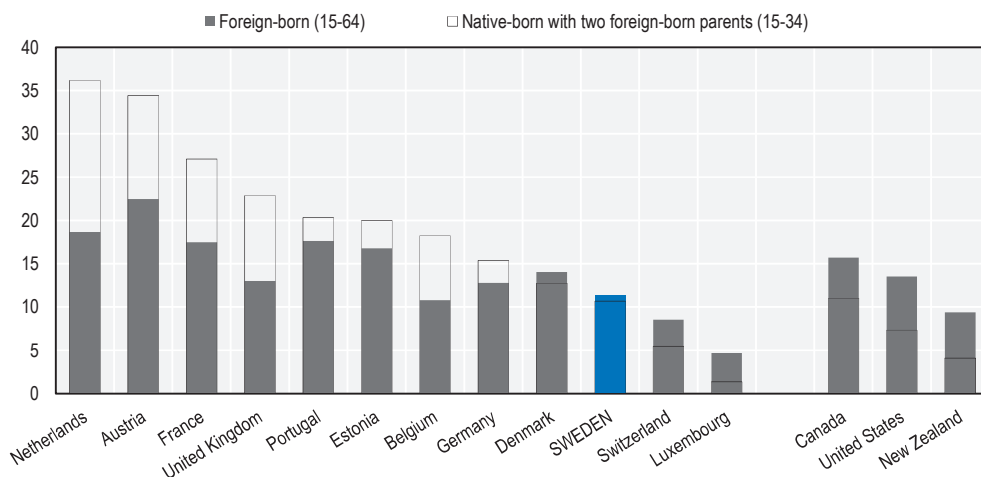
Tackling discrimination

In addition to the reasons outlined above, *discrimination* may also impact upon the willingness of some employers to hire migrants. Discrimination generally takes one of two forms. The first, known as “statistical discrimination”, occurs when lack of information about a candidate’s experience or qualifications causes risk-averse employers to avoid hiring him/her. The second and more pernicious, “taste-based” discrimination, occurs when employers simply prefer to hire candidates with a particular origin. In practice, it is often difficult to distinguish between these two types of discrimination, as statistical discrimination tends to be based upon prejudices rather than accurate perceptions about immigrants and indeed, the effects on the individual immigrant tend to be the same. Discrimination can also be indirect. Such indirect discrimination occurs when a person is disadvantaged by a provision or criterion that appears neutral but may put certain groups at a particular disadvantage.

From the perspective of the immigrant themselves, the proportion of foreign-born individuals that feel discriminated against in Sweden is among the lowest in the OECD. Indeed, Figure 4.9 illustrates that only 11% of the foreign-born consider themselves members of a group that is discriminated against. What is more, discrimination perceptions are similarly low when it comes to the native-born with foreign-born parents – a group who are often more sensitive to the effects of discrimination than the foreign-born themselves because among the native-born the effects of discrimination can less easily be attributed to other characteristics such as language skills or education.

Figure 4.9. Persons who consider themselves members of a group that is or has been discriminated against on the ground of ethnicity, nationality or race, selected OECD countries, 2002-12

As a percentage of all foreign-born/native-born with two foreign-born parents, persons aged 15-64 and 15-34



Source: OECD and European Commission (2015).

Despite these perceptions, field experiments in Sweden using fictitious applications with immigrant-sounding names and otherwise equivalent CVs have revealed that significant discrimination is prevalent in Sweden. Such studies have found: that immigrants must send twice as many applications to be invited to a job interview relative to comparable candidates with Swedish sounding names (Åslund and Nordstrom Skans, 2007); that a person born outside Europe would have to lower their salary expectations by 16% to get the same job-prospects as a person born in a Nordic country with equivalent skills and qualifications (Eriksson et al., 2012) and that the probability of being called to an interview for an applicant with Arabic sounding name was lower when the person responsible for the recruitment was a male; when the company had less than 20 employees and when it was located in a municipality with relatively high proportion of immigrants (Carlsson and Rooth, 2007).¹⁷ Clearly discrimination is an issue though, given that immigrants themselves largely do not perceive it, it does not seem to be overt.

Anti-discrimination laws are difficult to enforce because discrimination is difficult to prove

Sweden has a long experience in anti-discrimination legislation – beginning with the Gender Equality Act of 1979. The most recent Discrimination Act, which entered into force in 2009, has consolidated anti-discrimination policy by replacing seven former laws against discrimination. The Equality Ombudsman (DO) supervises compliance with the Discrimination Act. In Sweden, policies to tackle discrimination against immigrants in the labour market vary from formal prohibition in legal standards to coercive and direct intervention of public authorities, often in co-operation with non-governmental actors (Box 4.2 touches upon the legal framework in Sweden).

Box 4.2. Swedish policy at a glance: Anti-discrimination policy

- The Discrimination Act of 2009 has consolidated anti-discrimination policy. The Equality Ombudsman (DO) supervises compliance with the Act.
- The DO registers and investigates complaints based on the law's prohibition of discrimination and harassment, and can represent victims in court free of charge.
- The 2009 act introduced a new compensation for discrimination – both to deter discrimination and to compensate for its effects.
- The DO monitors employers and education providers, through the use of equal employment policies to promote equal rights and opportunities.

The DO is tasked with raising awareness and disseminating knowledge and information about discrimination and about the prohibitions of discrimination, both among those who risk discriminating against others and those who risk being subjected to discrimination.

Local Anti-Discrimination Bureaus (ADBs), which are independent voluntary organisations, provide advice and support at local level regarding anti-discrimination laws.

In Sweden, as elsewhere, tackling discrimination through the courts can be a challenge as proving that it has occurred is difficult. According to the Swedish Discrimination Act, any person claiming to have been discriminated against on the grounds of their immigrant background must demonstrate circumstances in which they have been disadvantaged compared to how an individual without an immigrant background would have been treated in a comparable situation. If such differential treatment can be demonstrated then the employer may still demonstrate that substantive reasons, other than discrimination, motivated the alleged discriminatory behaviour (provision, criterion or conduct).¹⁸ Employers,

however, often provide substantive explanations for their actions and, as elsewhere, it is difficult to determine whether discrimination has occurred during the recruitment process.

The difficulty in proving discrimination in this manner is highlighted in the numbers. And a recent report commissioned by the European Commission against Racism and Intolerance suggests that of the 900 complaints received every year by the Equality Ombudsman, only 1% ended in lawsuits (ECRI, 2012). To date, there have been eight lawsuits filed concerning discrimination on grounds of ethnicity, including one on indirect discrimination.

One of the changes implemented in the Discrimination Act from 2009 concerned the compensation offered to victims of discrimination. The Swedish Discrimination Act now states that anyone who violates the prohibition of discrimination under the Discrimination Act shall pay compensation to the person offended.¹⁹ This compensation differs in two ways from that provided for under the previous legislation. In the first place compensation is now no longer considered to be solely an indemnity for damages, but instead has the dual aims both of compensating the victim *and* deterring prospective perpetrators. The second aim of the change was to increase the level of compensation for discrimination. However, determining the amount of compensation has proven to be a challenging task for Swedish Courts. In five of the eight lawsuits that have been filed concerning discrimination on grounds of ethnicity, the perpetrators had to pay compensation for discrimination which were set between SEK 5 000 (EUR 529) and SEK 80 000 (EUR 8 470). The significant disparity between the minimum and the maximum levels of compensation paid suggests a degree of uncertainty in the Swedish Courts regarding the appropriate amount of the indemnity under the new compensation scheme. And while, in 2014, two rulings on the calculation of compensation for discrimination in the Swedish Supreme Court explained how Courts should calculate the compensation it has been suggested that the level of compensation for minor violations is often too low to have any deterrent effect (Equality Ombudsman, 2013).

Indirect discrimination manifests itself in overly stringent language requirements and in informal recruitment methods

The Discrimination Act distinguishes between different categories of discrimination, including direct discrimination and indirect discrimination. Evaluating claims of indirect discrimination involve assessing whether a provision, criterion or conduct which is perceived to put the claimant at a

disadvantage, in fact exists for a legitimate purpose. To be considered acceptable a provision must have an important objective.²⁰

The most frequent occurrence of indirect discrimination during the recruitment process concerns the language requirements established by employers. Requiring Swedish as mother tongue is generally conceived as direct discrimination based on ethnic origin. Difficulties emerge however when employers request “a good knowledge of Swedish”. While in many cases this is a reasonable requirement, it may nevertheless constitute a neutral criterion that can result in indirect discrimination. Where good language skills are necessary to complete the primary tasks of a job – for example if the job requires significant contact with customers – then the law allows for exemptions. According to the Court of Justice of the European Union, however, such exemptions should be applied narrowly. That is, while language requirements are in some instances permissible, if they are considered to be above those required for the position in question, they are considered to be ethnic discrimination.²¹

A second source of indirect discrimination can arise in Sweden due to the large number of vacancies filled via personal contacts (discussed above). If vacancies are filled when the employer and the job seeker already know each other, or when they have indirect connections that attract the job seekers’ attention to a particular vacancy, then those without access to such networks are disadvantaged. Employers may choose to recruit through networks believing that they will gain a higher quality of candidate if they recruit among those they know, however, these stereotypes and structural attitudes’ are at the very core of discriminatory behaviour.

In practice, it can be difficult to identify, let alone to prove, that indirect discrimination has occurred in a recruitment process. In many cases, discrimination is not overt, and sometimes the party that discriminates may be unaware that the conduct is discriminatory. Dynamics between employer and employee or job seeker can be subtle and intertwined in a complex manner. As a result, tackling the issue must often focus on raising awareness and increasing the transparency of recruitment practices and outcomes.

While the Equality Ombudsman is tasked with raising awareness and disseminating expertise and information about discrimination and the prohibitions against it a report by the National Audit Office in 2012 found that the Equality Ombudsman focused more on processing complaints rather than on preventive work. Since then, the preventive work of the Ombudsman has been enhanced through the development of support material and e-learning tools for employers. Nevertheless, raising awareness remains a challenge.

Equal Employment Policies are less well developed than elsewhere in the OECD

A set of measures that have been used by a number of OECD countries to address implicit discrimination are Equal Employment Policies (EEPs). The objective of EEPs is to confront non-intentional, systemic and indirect discrimination. Equal employment policies include a range of agreements on quotas and targets or the use of equality plans or codes of practice explaining what kind of human resource processes should be developed to respect non-discrimination principles and to enhance diversity. Such policies should include elements of monitoring, implementation, benchmarking, and evaluation. While quotas are generally compulsory, targets and goals on the other hand, are indicative and do not imply preferential treatment of a specific group. While the introduction of hard quotas has been relatively rare in European OECD countries, many countries have instead implemented policies based on flexible targets and experimented with the use of diversity charters, diversity labels and diversity plans (see Box 4.3).

Box 4.3. Diversity policies in France, Belgium and the Netherlands

A diversity label was established in **France** in 2008. The label is delivered for three years and is delivered by a commission including representatives of national administration, social partners, the National Organisation of Human Resources Managers and experts. An audit is performed by the French national organisation for standardisation, which may grant a certification. In 2013, more than 260 companies have received the label.

Since 1999, the **Flemish** Region of Belgium proposes so called “Diversity Plans” to employers, in co-operation with social partners. Flemish “Diversity Plans” are comparable to those used in other OECD countries, however with the different and innovative aspect that they targets SME’s specifically rather than aiming at larger companies as many other countries do. Employers who want to improve introduce strategies for their staff’s development and employability skills can receive financial support from the Flemish Department of Work and Social Economy as well as from dedicated “diversity consultants” through diversity and career plans. In 2012, 890 business and organisations submitted such a diversity and career plan (OECD, 2015).

The **Dutch** Act Stimulating Labour Participation of Minorities (*Wet Samen*) obliged companies to monitor the employment of immigrants and to report on the steps taken to realise an equitable workforce. Although there were no sanctions for non-compliance, a large number of companies responded to the obligations and a strong improvement in the labour market outcomes of immigrants was observed. While the monitoring was abandoned in the Netherlands following the perception that the administrative burden placed on employers was too high, in Sweden, monitoring the employment of immigrants at the company level could be done with information available from the Business register.

The 2009 Swedish Discrimination Act includes a type of EEP through its third chapter on so-called “Active Measures” (*Aktiva Åtgärder*). The provisions on Active Measures require employers to draw up an equality plan, an action plan for equal salaries, and a survey of earnings. However, to date, these plans apply only to gender related discrimination.²² Alongside these “Active Measures”, since 2010 Sweden has had a diversity charter, created by a non-profit association known as *Diversity Charter Sweden*. Diversity charters are voluntary commitments in which private companies pledge to promote diversity and equal opportunities at the workplace. In Sweden the network exchanges experiences and best practice concerning benefits of cultural, demographic and social inclusion within organisations. The signatories of the charter, however, are primarily large companies where recruitment strategies already tend to be less discriminatory and Swedish evidence suggests that selective hiring against immigrants tends to be more pronounced in smaller companies (Carlsson and Rooth, 2006). Beyond diversity charters, diversity labels additionally include a monitoring element where a certification is delivered based on an assessment of the implementation of the diversity measures.

While diversity labels remain voluntary, transparent labelling in this manner may encourage employers to address their diversity practices for fear of appearing not to support diversity should they not adopt diversity policies. Given that the rules on Active Measures in Sweden do not apply to enterprises with less than 25 employees, diversity labels targeting these companies could serve as an important instrument to tackle discrimination at work. Diversity consultants may be particularly valuable in Sweden to work with companies to examine their recruitment behaviour – including the language requirements attached to positions, as well as to provide training to address unconscious bias.

Notes

1. After ten years in Sweden, the share of foreign-born workers on temporary contracts falls substantially. This may suggest that such temporary work provides the foreign-born with a stepping stone into permanent work. However, disentangling this from the composition effect is not straightforward. The use of temporary contracts has increased substantially over the past decade (see Anderssen et al., 2012) and the prevalence of new arrivals on this type of contract may be a reflection of this institutional evolution.
2. There is no information on temporary contracts in the payroll data, and surveys that incorporate information on temporary work – such as the “Levels of Living” survey collected by Stockholm University – tend to be small scale and collected on an infrequent basis. This renders analysis conducted on sub groups problematic.
3. In contrast, Orrenius and Zavodny (2008) find that employment of immigrants in the United States is not harmed by minimum wages. However their analysis is based upon all migrants and does not distinguish between labour migrants and refugees. In addition, and as argued by the authors, there is likely to be substantial non-compliance among employers of undocumented immigrants.
4. PES employer checks prior to the arrangement of a placement include verification, via a database linked to the business register, that there have been no recent dismissals in positions similar to those for which a subsidised worker is requested. And a recent National Audit Office (NAO) survey found that the majority of employers in Sweden – 72% of those employing a “Step-in Jobs” worker and 61% those employing a worker under “New Start” – stated that they would not have hired the employee in the absence of the subsidy (Riksrevisionen, 2013).
5. The authors do not find a statistically significant difference in the magnitude of the impact and therefore do not investigate further. This is unfortunate because the authors identify systematic differences in the composition of the non-Nordic participant population (in terms of age, education, unemployment duration) that are likely to influence their post programme employment prospects.

6. Unlike “Step-in Jobs”, “New Start Jobs” is not considered by the Swedish authorities as a labour market programme. This is because employers are systematically entitled to the subsidy when hiring any eligible employee.
7. This is partially because the foreign-born are eligible for the programme either if they are among the long-term unemployed or their residence permit was granted in the previous three years.
8. For example in terms of the associated benefits and insurance.
9. There is the concern that more able individuals, or those closer to the labour market are more able to take advantage of the programmes, thus the superior outcomes of programme participants may reflect pre-existing characteristics rather than intrinsic benefits of participation. In the case of “Step-in Jobs” the PES caseworker makes the referral on the basis of the extent to which they believe the candidate would benefit, and not all eligible candidates are referred. In the case of New Start Jobs, participation is contingent on the employer’s willingness to hire the participant under the programme.
10. No significant impact was identified when “New Start Jobs” were excluded from the definition of employment. However, this is largely driven by the large number of individuals who participate in both programmes.
11. Indeed, the untargeted employment subsidy “New Start Jobs” becomes a cheaper alternative for employees paid a monthly salary of more than SEK 26 000 (equivalent of EUR 2 700). This should not be confused with the previous threshold figure of SEK 20 000 which refers to the threshold at which New Start jobs becomes cheaper when a firm must additionally ensure other workers in the company.
12. Participation in “New Start Jobs” (to which new arrivals who have been granted a residence permit as a refugee, person in need of international protection, or because of family ties in the preceding three years are eligible) among introduction plan participants was only 3% in 2013 – the disparity is likely due to the fact that this subsidy tends to target workers closer to the labour market.
13. Until recently, subsidies provided under “New Start Jobs” were without a cap. The current cap of SEK 22 000 is higher than that available under “Step-in Jobs”.
14. While there are currently no OECD countries with a separate minimum wage for immigrant workers, several countries have applied minimum wage reductions for apprentices that depend both on their age and on their probable productivity, as measured by the year of training that they are in as in France, or their tenure in the firm as in Germany (see OECD, 2014).

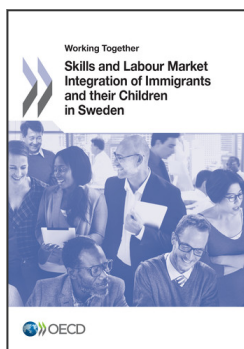
15. In addition, there is also the possibility that a worker agrees to undertake an informal apprenticeship with an employer that could potentially offer him/her a job. Such informal agreements often involve working without a wage from the beginning.
16. “Apprenticeship for new arrivals” can be undertaken as part of the “Applied basic year”.
17. Indeed, meta-analysis by Liebig and Huddleston (2014) shows that Sweden among the worst performers when it comes to the ratio of call-back rates for native- and foreign-born job applicants. However, given the different design of the studies compared by the meta-analysis, figures are not directly comparable.
18. Discrimination Act 2009, Chapter 6, section 3. See also the laws preparatory work; Prop. 2007/08:95 s. 561
19. Discrimination Act 2009, Chapter 2, section 1-2.
20. For example, a company might employ only persons who are at least 175 cm tall. Such a condition may appear neutral but puts specific groups at a particular disadvantage, such as women and people from certain ethnic groups that are more often shorter than 175 cm. If the employer cannot show that the purpose of being at least 175 cm tall is important and objectively acceptable in regards to the job (e.g. for safety reasons), this provision constitutes indirect discrimination.
21. Regulation (EU) No 492/2011, Article 3 (1). See C-15/69 Ugliola and 225/85 Commission v Italy.
22. Furthermore, in 2009, in order to reduce the administrative burden falling on employers, the requirements were loosened such that employers are now required to draw up a plan only once every three years (instead of every year as had previously been required) and companies with less than 25 employees are now exempted from the obligation to establish equality plans altogether (previously exemptions had held only for companies with less than ten employees). This relaxation of requirements was implemented as it was considered more important that employers establish credible working plans, rather than that these plans were updated annually. The Equality Ombudsman then scrutinises a number of selected employers each year. According to a recent Government Commission, while many employers already act in line with the provisions on Active Measures, systematising their use among all private sector employers, ensuring better and more coherent compliance, and facilitating the monitoring and evaluation of the measures by the Equality Ombudsman will require that they are formally defined and stated in law.

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