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Decentralisation of active labour market policy: The case of Swedish local employment service committees

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Abstract

Decentralisation of decision-making in labour market policy may increase efficiency, since local authorities have first-hand knowledge about local labour market problems. However, decentralisation may also be associated with fiscal externalities generating misallocation. The purpose of this study is to examine the effects of a Swedish pilot programme in 1996, which strengthened the role of the local authorities in labour market policy in certain regions. Our econometric findings do not indicate any increase in geographical lock-in of the unemployed, but decentralisation seems to spur local initiatives in the form of projects organised by the municipalities and increase targeting on outsiders in the labour market. The latter result is consistent with the hypothesis that municipalities used their increasing influence in order to improve municipal budgets at the expense of the central government.

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1. Introduction

Decentralisation of decision-making may increase the efficiency of active labour market programmes (ALMPs), since local authorities have first-hand knowledge about the nature of local labour market problems. Decentralisation of labour market policy can, however, also be associated with various types of fiscal externalities generating misallocation.

Firstly, decisions regarding ALMPs made by one local government are likely to affect other local units. The programmes may serve as a means of increasing or maintaining local population and the municipal tax base, by reducing migration among the unemployed to other regions. Programme participation has a direct migration-reducing effect while the programme lasts. Geographical lock-in may also linger on if training that is useful only to employers outside the locality tends to be not provided. Secondly, it is possible that decentralisation leads to free-rider problems for the central government. For example, municipal budgets are likely to be favourably affected by shifting persons from social assistance, which in Sweden is funded by the local authorities, to participation in programmes, financed by the central government. In addition, job-creation programmes may crowd out regular municipal jobs, implying subsidisation of labour in services that typically local authorities provide, e.g., infrastructure, health, children's day-care and old age care.

The fiscal implications of labour mobility across regions have been considered by, e.g., Wildasin (1991). There is also some empirical evidence suggesting that Swedish ALMPs actually are associated with locking-in of displaced workers in depressed regions (Fredriksson, 1999; Fredriksson and Johansson, 2003; McCormick and Skedinger, 1992). Very little is known, however, about the effects of decentralisation of labour market policy per se on geographical mobility. Another unexplored issue in the literature is whether decentralisation enables local units to pass on costs for social policy to the national level. Evidence on these matters should be of importance since some OECD countries have shifted the emphasis of labour market expenditures from passive measures—such as the payment of unemployment benefits—to more of active measures in the 1990s (Calmfors and Skedinger, 1995; OECD, 1995). In addition, perceived inefficiencies in employment services have triggered a general trend towards decentralisation of ALMPs (European Commission, 1996). So far, there is only scant evidence concerning whether the efforts towards decentralisation have actually contributed to improving the effectiveness of ALMPs or not.¹

The purpose of this paper is to shed light on the effects of decentralisation by examining the effects of a Swedish pilot programme in 1996. This programme strengthened the role of the local government in labour market policy in certain municipalities. The local employment service committees (*arbetsmarknadsnämnd*, formerly known as *arbetsförmedlingsnämnd*) in 25 municipalities were reformed so that the representatives of municipal authorities should constitute the majority of the committees' members. These committees—henceforth ESCs—are co-operative, advisory

¹ Informal discussions of the Swedish experiences of decentralisation of decision-making in labour market policy can be found in Lundin (1999), Nyberg and Skedinger (1998), and SAF (1999).

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