

Daniel RAUHUT*, Petri KAHILA**

YOUTH UNEMPLOYMENT, AGEING AND REGIONAL WELFARE: THE REGIONAL LABOUR MARKET POLICY RESPONSE TO AGEING IN SWEDEN

Abstract: The aim of this paper is to discuss the regional labour market policy response to demographic ageing in Sweden and its consequences on the labour supply of young adults. Regions with ageing problems already experience significant problems at the labour market. The overall conclusion is that labour market policies in Sweden addressing the consequences of ageing fail to include young adults and the policies do not address regional heterogeneity regarding e.g. ageing and youth unemployment.

Key words: youth unemployment, ageing, labour market institutions, labour market policies, rural labour markets.

1. INTRODUCTION

The future will be influenced not only by demographic processes, but also by the political and economic choices made by individuals and institutions in the ongoing adjustment process designed to help utilise scarce resources more efficiently. The size of the labour force and the share of the labour force that is actually in work are, however, short-term aspects of economic growth, prosperity and welfare. Long-term economic growth, prosperity and welfare are determined by factors such as e.g. the capability to produce technological innovations, the social capability to adapt to new technology, the educational level of the labour force and the attitudes in society towards economic activity and existing institutions (Abramovitz, 1995; Kuznets, 1967; Lucas, 1988; Romer; 1986, Solow, 1956).

* Daniel RAUHUT, the Royal Institute of Technology (KTH), Division of Urban and Regional Studies, Drottning Kristinas väg 30, SE-100 44 Stockholm, Sweden, e-mail: daniel.rauhut@abe.kth.se

** Petri KAHILA, P.O. Box 1658, SE-111 86 Stockholm, Sweden, e-mail: petri.kahila@nordregio.se

The causality between demographic change and general economic performance is however anything but clear-cut. It is ambiguous to say the least – both in terms of direction and magnitude. Population decline and changes in the population structure may entail positive as well as negative economic development depending on the institutional and organisational changes that take place (Rosenberg and Birdzell, 1994; Kelley and Schmidt, 1994; Coppel *et al.*, 2001). Population ageing is a slow process to which society as a whole has plenty of time to adjust (National Research Council, 2001).

The Nordic population is projected to continue growing – at least until 2030 – and the increase is envisaged to take place in the population aged 65+ (Rauhut *et al.*, 2008). As in most of Europe, the population and work force will become older in Sweden. This process of ageing will however be unevenly distributed across the country. Young adults are moving out of the periphery, headed for the metropolitan areas, with the result that the ageing in the periphery increases even more. The metropolitan areas will have a significantly more favourable age-structure due to this (Eðvarðsson *et al.*, 2007). Labour immigration can only cover for some of the labour need in Sweden (Bengtsson and Scott, 2010), partly because labour immigrants are reluctant to move to peripheral areas (Rauhut and Johansson, 2010). The future domestic labour supply is especially unfavourable for peripheral regions in Finland and Sweden, while metropolitan areas will do well (Dall Schmidt *et al.*, 2011).

The population structure and population development will influence the competence supply for employers, which will have consequences for production. Employers must, in one way or another, adjust to the new labour market situation (Ohlsson and Broomé, 1988). The various branches and sectors of the economy will be affected differently depending on their ability to adjust and respond to the challenges raised by the labour force generation shift. According to them, *quantitative changes* in the labour force have simply not occurred as they note that ‘the general fear that Sweden is heading towards a situation characterised by a weakening labour force is unfounded and incorrect’ (Ohlsson and Broomé, 2003, p. 9). Other changes will, however, occur:

Qualitative changes will occur due to the upcoming labour market generation shift, as 40% of the current labour force, which possesses the experience, insight, overview, adaptation capacity, mentorship and cross-sectoral capacity will disappear from the labour market. In a more or less difficult personnel restructuring process within companies, this group will be replaced by a somewhat larger group of young people who lack experience, but have a whole range of other skills and talents. This group of young people has knowledge and competence, particularly technical competency, in several new areas. They possess new values and outlooks, physical vigour, youthful energy and commitment. It is this qualitative change that the labour force generation shift is mainly about (Ohlsson and Bromée, 2003, p. 9; italics in original).

The institutional structure of the labour market will have to adjust to the new situation due to the labour force generation shift and the outcome here will depend

on how dynamic the institutions are (Ohlsson and Broomé, 2003). Policy norms in respect of employability potential are built upon the notion that the current order should be preserved. Therefore, to change the organisational setup in the labour market the policy norms must change in the Nordic countries (Andersen *et al.*, 2007).

Youth employment is a challenge in Sweden where high unemployment and considerably lower employment levels persist among young people (Kahila and Rauhut, 2009). As regards enhancement of employability in the EU member states, various efforts of labour market policy have shown positive results in terms of increase in employment rates of women and recently also to some extent of ageing population, but attempts to increase young adults employment rates have been rather limited (Fredericks *et al.*, 2010). As a result, young adults have restricted opportunities to qualify for the social insurance schemes. Furthermore, if they are unemployed too long they will become unemployable and thus not contribute to the financing of the welfare.

The aim of this paper is to discuss the regional labour market policy response to demographic ageing in Sweden and its consequences for the labour supply of young adults. The study proposes to answer the following questions: (1) are young people addressed in the policy responses to ageing and its consequences for labour supply in Sweden? (2) Is ageing and its consequences for the labour supply addressed in regional policies? (3) To what extent are labour market institutions dynamic and able to adjust to ageing and its consequences at the regional level?

2. THEORETICAL CONSIDERATIONS

According to standard economic theory, the demand for labour depends on the fluctuations of short-term business cycles. In a short-term perspective, the opportunity cost of replacing labour with capital, i.e. investing in new technology, will be too high. If the labour shortage continues, or even worsens, over time, the opportunity cost of not substituting labour will be too high. In a long-term perspective, labour shortage is not about being short of labour, but about lacking the capacity to adjust to the structural changes in the economy (Elliott, 1991). In a market economy, there is really no such thing as a true shortage. If you want more of something, you can simply pay more to have it. When employers say that there is a labour shortage, what they really mean is they cannot get enough workers at the price they want to pay (Björklund *et al.*, 1996).

An increase in wages is to be expected when labour is scarce, which leads to an increasing wage ratio in the production. When the marginal cost of a continued increase in production is higher than the marginal cost of substituting capital for labour, institutional, organisational and technological changes will be required in

order to replace the scarce and expensive factor commodity labour in production (Fallon and Verry, 1988).

Ageing will cause a change in the relative supply of labour, ΔL_s , something which will lead to a change in the relative factor price for labour, ΔRP_L . This will stimulate a structural change, SC , in the economy. A structural change in the economy will lead to a relative change in the demand for labour, ΔL_D , qualitatively and quantitatively. A consequence of a change in the relative demand for labour will be that welfare, ΔW , in general terms, will also change. Both the relative supply of labour, L_s , and the relative price for labour, RP_L , will be affected by a relative change of welfare in a broad sense.

The links between L_s and RP_L , between RP_L and SC , and between SC and L_D will be determined by the flexibility in the institutional framework, I . I contains elements from institutional economics (Olsson, 1982; North, 1999; Schön, 2000), the segmented labour market theory (Doeringer and Piore, 1971, McNabb and Ryan, 1990) and New Economic Geography (Krugman, 1991; Behrens and Thiesse, 2007; Maskell, 2001). If the institutional framework is dynamic the adjustment to new conditions will be relatively rapid and easy while a static and un-dynamic institutional framework will obstruct a structural change in the economy. The result will then be a long and painful process of adaptation to the new conditions.

Three distinct implications from I can be identified: (i) it is theoretically possible for the actors to keep I at a constant level, i.e. no institutional changes take place although changes in L_s , RP_L , SC and L_D take place; (ii) it is theoretically possible to keep I constant when the other variables in the model change; (iii) I is dependent on the context in which it operates. The laws, regulations, norms and alliances that are the lubricants of one economic and social structure may constitute bottlenecks in another. At a higher level of abstraction flexibility may then be expressed as a tendency by I to respond to – i.e. be determined by SC and ΔW . If we assume that the flexibility in the institutional framework, I , has a value between 0 and 2, i.e. $0 < I < 2$, the flexibility in I can be quantified.

There are several other factors that can change the supply of labour and change the relative factor prices for labour. This means that the causes of a structural change do not have to be triggered by demographic factors at all. Eðvarðsson *et al.* (2007) show that the regions in the Nordic countries have experienced an ongoing process of de-industrialisation since the early 1990s; this de-industrialisation is nothing but a structural change. The causes of this structural change in the Nordic regions are mainly connected to increasing competition and globalisation (Andersen *et al.*, 2007). This has, in turn, changed the relative factor prices, not only for labour.

Since not only the supply of labour has an influence on the relative factor prices for labour it is a good idea to use the relative factor prices for labour as a point of departure in the theoretical framework. The model below summarises the reasoning:

$$\frac{\partial SC}{\partial RP_L} \cdot \frac{\partial L_D}{\partial SC} \cdot \frac{\partial W}{\partial L_D} = \frac{\partial W}{\partial RP_L} \quad (2.1)$$

The model shows that the marginal change of RP_L will determine the marginal change of welfare, W . The institutional framework and dynamics must, however, be included in the model:

$$I = \frac{\partial W}{\partial RP_L} \quad (2.2)$$

Since the focus in this study is the welfare policy response the model can be expressed as

$$\partial W = \partial RP_L \cdot I \quad (2.3)$$

The model has to be supplemented by a spatial dimension to allow for regional differences, both in terms of labour supply and welfare but also in institutional dynamics. The regional differences will be included as i in the model. All changes in the model will however not take place immediately after one of the indicators changes; time lags are to be expected and they are labelled $t-n$.

$$\partial W_{i,t} = (\partial RP_{L,i} \cdot I_i)_{t-n} \quad (2.4)$$

In equations 2.3 and 2.4 the importance of a functioning labour market, with dynamic institutions, is in focus; dynamic labour market institutions have an implication on the relative factor prices of labour e.g. through the matching efficiency at the labour market (Björklund *et al.*, 1996).

Three hypotheses derived from the theoretical framework will be tested in this study: (1) young adults are not an explicit part of the labour market policy response in the Nordic countries to ageing and its effect on labour supply; (2) the policies addressing ageing and its consequences are focusing on the regional level in the Nordic countries; (3) if questions 1 and 2 are confirmed, something is obstructing an efficient and functioning regional labour market which is able to respond to supply changes at the labour market in a dynamic way.

3. A STATISTICAL OVERVIEW

The regions in Sweden with present and future problems of an ageing population and eroding work force also suffer from several other problems. In figure 1 it is shown that the correlation between the proportion of persons aged 65+ in the region and the regional open unemployment rate for young adults is so high that it cannot be ignored; in figure 2 the same strong correlation exists with regard to

the share of persons aged 65+ in the region and the regional share of young adults aged 18–24 in unemployment schemes. Both figures show data for 2010. So, the higher the percentage of persons aged 65+, the more difficult it is for young adults to find employment.

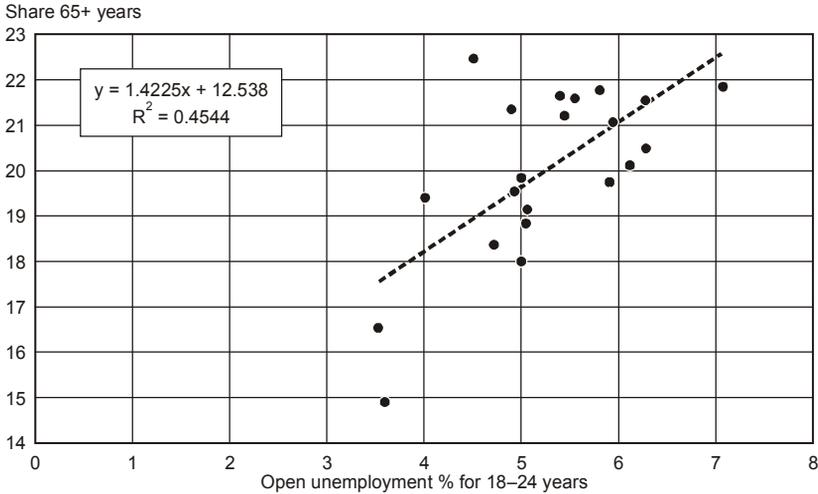


Fig. 1. The correlation between the share of persons aged 65+ in the region and the regional open unemployment rate for young adults aged 18–24 in 2010
Source: authors’ calculations from Statistics Sweden Population database and the National Labour Board

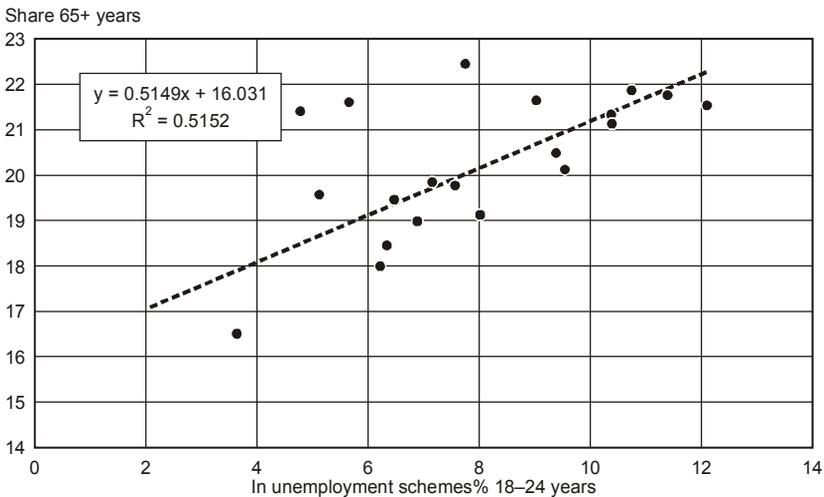


Fig. 2. The correlation between the share of persons aged 65+ in the region and the regional rate of young adults aged 18–24 in unemployment schemes in 2010
Source: authors’ calculations from Statistics Sweden Population database and the National Labour Board

This is not the only challenge these regions face. The higher the regional youth unemployment rate, the higher the regional average spending on social transfers (figure 3). Again, the correlation is so strong that it cannot be ignored. We do not, however, believe that young people refrain from employment to pick up social benefits; it is the other way around – the high regional social transfers partly depend on high youth unemployment. If young adults cannot provide for themselves (in cases they have not qualified for the unemployment scheme), they will at least be provided for through economic assistance.

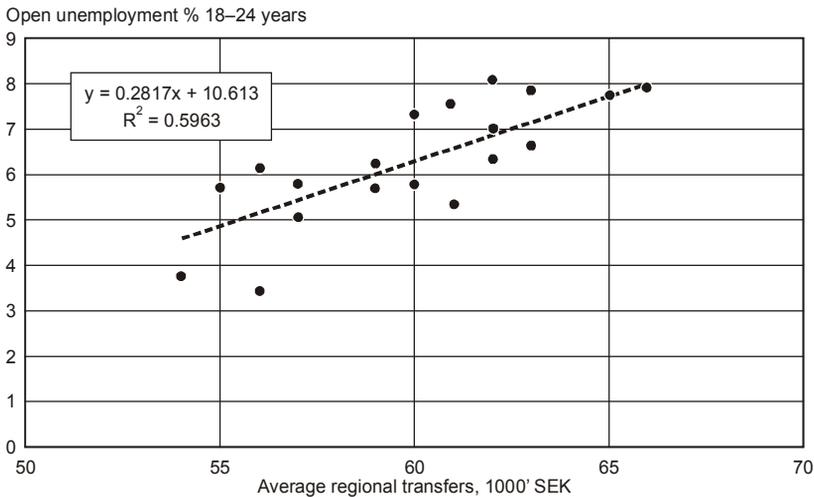


Fig. 3. The correlation between the regional open unemployment rate for young adults aged 18–24 and the average regional social transfers (SEK 1000's) in 2010

Source: authors' calculations from National Labour Board and the National Social Insurance Board

The high social transfers in regions with high rates of youth unemployment are also connected with high percentages of labour force on long-term sickness leave (figure 4). Also this time the correlation is so strong that it cannot be ignored. So, regions with high youth unemployment rates also face high percentages of long-term sick, besides the high proportion of persons aged 65+.

One further observation of interest is that regions with high youth unemployment also have low vacancy rates (figure 5). This is logical: with few vacancies it is difficult for entrants (in this case young adults) into the labour market to compete with more experienced labour for the jobs. Furthermore, one could expect a high share of population on long-term sickness leaves to increase the vacancy ratio, but it is actually the opposite (figure 6): the higher the share of long-term sick, the lower the vacancy ratio. The correlation is so strong that it cannot be ignored.

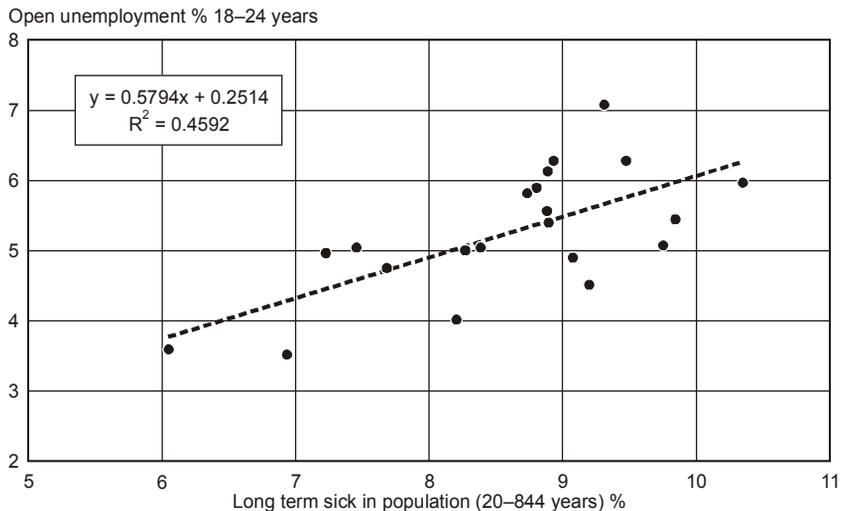


Fig. 4. The correlation between the regional open unemployment rate for young adults aged 18–24 and the share of long-term sick as a share of the regional work force in 2010
Source: authors’ calculations from National Labour Board and the National Social Insurance Board

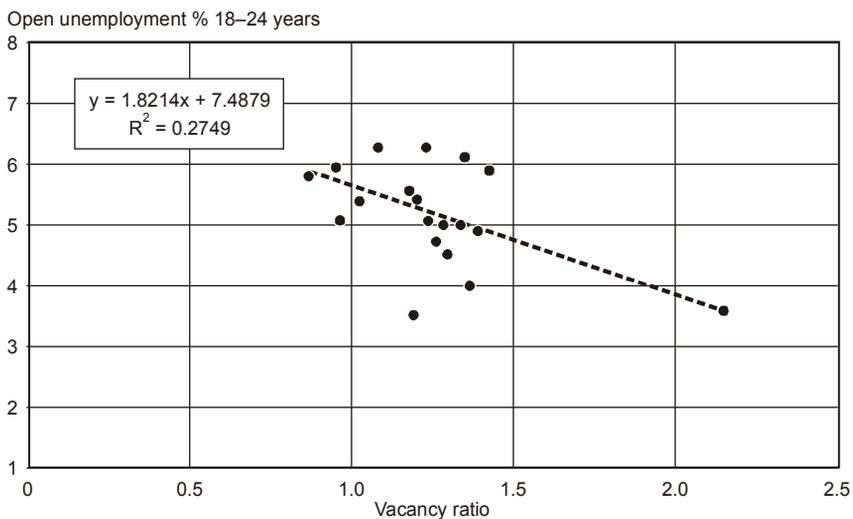


Fig. 5. The correlation between the regional open unemployment rate for young adults aged 18–24 and the regional vacancy ratio in 2010
Source: authors’ calculations from Statistics Sweden Population database and the National Labour Board

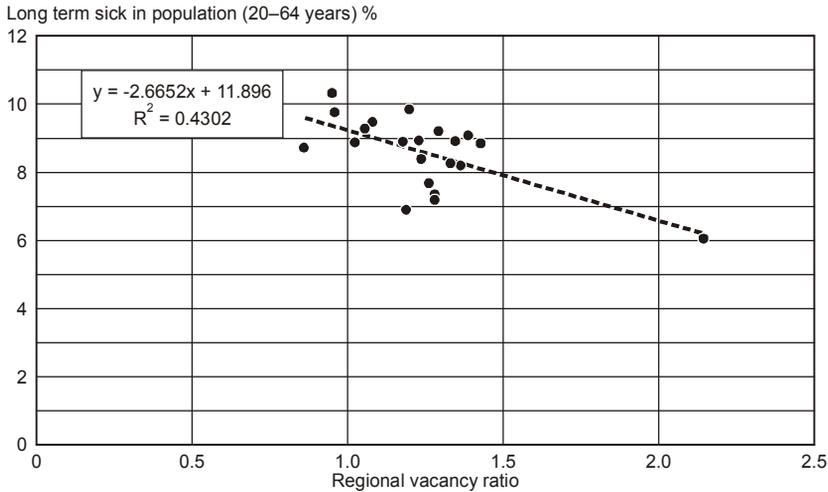


Fig. 6. The correlation between the regional open unemployment rate for young adults aged 18–24 and the regional vacancy ratio in 2010

Source: authors' calculations from National Labour Board and the National Social Insurance Board

This short overview indicates that the regions with ageing problems actually face a number of significant problems at the labour market. Eðvarðsson *et al.* (2007) argues that many of the regions with a high share of population aged 65+ also have experienced a de-industrialisation process over the last decades. Consequently, an institutional inertia slows down the adjustment to a post-industrial economic structure (Rauhut and Kahila, 2008; Kahila and Rauhut, 2009).

4. CURRENT POLICIES

The *Lisbon Strategy* aimed at full employment and the strengthening of social cohesion by 2010 (European Commission 2004a, b). Since then, specific targets have been defined on overall employment rates (70%), employment rates of women (60%) and employment rates of older workers (50%) (European Commission 2005). Inevitably the *Lisbon Strategy* failed to reach its ambiguous targets because it did not have any clear instruments to reach the targets (Cantillon, 2010). Its successor, the *Europe 2020 Strategy*, targets to achieve an employment rate of 75% by 2020 (European Commission, 2010a). In order to meet these challenges, the EU has to raise employment rates especially for women, young and older workers by focusing on four key priorities (European Commission, 2010b). Some of the prioritised issues are to avoid early exits from the labour market and promote older labour to learn new skills.

The Nordic *Cooperation Programme on Labour Market and Working Environment 2005–2008* aimed at increasing female and older people's employment rates in order to reduce the outflow from labour markets (Nordisk Ministerråd, 2005). The programme did not reach its goals. Despite this programme, the Nordic countries have not included matching instruments or approaches in respect of current and future challenges in the labour market (Rauhut and Kahila, 2008). The present programme, *Nordic Cooperation on Working Life 2009–2012*, focuses on advancing employment, labour market policy, the working environment and labour law to favour women and older persons (Nordisk Ministerråd, 2008). The present order should be protected in this programme instead of promoting adjustment (Kahila and Rauhut, 2009).

Sweden has a long tradition of active labour market policies which have been implemented side by side with the development of the welfare state (Junestav, 2007). It however lacks a comprehensive strategy to advance the labour market situation of ageing people, and the policies have thus far developed almost solely in relation to the different incentives related to welfare services (Kangas *et al.*, 2010). The policies have targeted the general development of the labour market and upgrading skills across the labour force in order to achieve full employment in the country. A number of important steps have been taken in relation to improving the labour market participation of older workers (Finansdepartementet, 2007). These incentives should however be reinforced and targeted on the demand side in the labour market (OECD, 2003b).

Several reforms have taken place over the last ten years in the Swedish labour market. Reforms have abandoned vocational training and subsidised programmes so that unemployed will have more personal responsibility in terms of finding a new job. Also, they now have to face a number of new 'activation requirements' in return for receiving income support from the state (Köhler *et al.*, 2008). The present labour market policy targets two specific groups: (1) long-term sick who have been transferred from the sickness insurance and are denied further benefits from the sickness insurance and (2) newly arrived immigrants who need to be introduced at the Swedish labour market; unemployed young adults are not prioritised. The only programme for them is 'Jobbgrantin'.³ Furthermore, the programmes to improve employability are either national or local (Arbetsförmedlingen, 2011). The programmes to improve employability for young adults are not very efficient; the programmes administered by municipalities are at the bottom of the scale regarding matching efficiency while the programmes that are age-neutral are at the top of the scale, also for young adults (Forslund and Nordström Skans, 2006). When the conditions for young adults to establish themselves in the labour market

³ This programme can last for maximum 6 months and contain an investigation of the individual's potentials as well as guidance on studies and professions for 3 months. After that a shorter education can be offered or a work (with reduced pay) to get some experience.

are examined young adults experience considerably less favourable labour market conditions in Finland and Sweden than in the other Nordic countries (Olofsson and Wadensjö, 2007) European Union policies emphasise the importance of a greater devolution of responsibilities and tasks as well as the integrated delivery of labour market and social services (European Commission, 2002). The labour market policy integration of services will bring clear advantages as services for disadvantaged people can be organised separately with sufficient resources and qualified personnel. Welfare and work are now ever more connected in terms of different measures of activation and rehabilitation.

Several of the 'Regional Growth Programmes' mention labour market issues, usually in the forms of stimulating life-long learning, increasing employment rates amongst immigrants, reducing long-term sickness and increasing equality regarding salaries, education and physical capabilities; young adults are just mentioned briefly (Västra Götalandsregionen, 2008; Region Blekinge, 2008; Region Örebro, 2009; Länsstyrelsen i Jämtlands län, 2009; Länsstyrelsen i Norrbottens län 2007; Gotlands kommun, 2008). These programmes are, however, silent on how they are going to achieve their goals. The Swedish Agency for Economic and Regional Growth does not mention labour market issues in their analysis and assessment of the 'Regional Growth Programmes' (Tillväxtverket, 2011).

The national level in Sweden retains a significant degree of power over regional labour market services. Most of the implemented policies focus on how to keep ageing labour in the workforce and postpone labour market exit for ageing workers. Ineffectual attempts have, in addition, been made to improve the situation for e.g. young adults and persons with an immigrant background. To a large extent ageing, welfare provision and labour supply are *regional challenges*. Alas, the policies implemented thus far address only the national level (Rauhut and Kahila, 2008).

5. POLICY NORMS, INSTITUTIONAL INERTIA AND VESTED INTERESTS

Many short-term policies have been launched, e.g., the raising of the retirement age, enabling older people to work longer, changes in labour market legislation to favour older workers and the promotion of labour immigration. Rauhut and Kahila (2008) show that few, if any, medium to long-term policies have been launched and implemented to deal with the upcoming challenges of welfare. At first glance this may seem odd, but not when a fuller picture is understood. When discussing long-term policies this becomes clearer. One such policy is to promote the necessary structural change in the economy to enable the post-industrial economy to create its own labour market institutions. This would not only produce new institutions, but also a different type of demand for labour. This is not welcomed by the vested interests of the industrial economy. Who will benefit from a structural

change in the economy – the old or young labour? Definitely the young labour as it will be in demand.

Andersen *et al.* (2007) argue that the institutions governing the labour market and the educational systems need to be reassessed and remodelled. They also emphasise the need for the Nordic population to work more and longer and the easiest way to reach this goal is to improve the employment rates for marginal groups (e.g. young adults, persons with an immigrant background and persons aged 50+). By reforming the public services, the labour market and educational institutions the foundation of the ‘Nordic model’ can be defended even if ageing and globalisation put it under pressure. ‘What has worked well in the past is unlikely to be good enough in the future’ (Andersen *et al.*, 2007, p. 158).

After a restructuring phase new jobs are normally not created in the same branches or locations where jobs were lost during the restructuring phase. Therefore, mobility and matching are essential parts of the restructuring of enterprises and improvements of the employment. The introduction of new technologies and competition between enterprises are the most important motivations behind the change, which leads to the creation as well as reduction of jobs (Magnusson, 2006). When the young adults move from the periphery to the metropolitan areas, in many cases just to break the vicious circle of unemployment, they challenge of the existing institutions in the peripheral regions to change. By *voting with their feet* they put pressure on the existing institutions as labour disappears, the tax base narrows and the reproduction potential erodes (Rauhut *et al.*, 2008).

While the production system in a post-industrial service economy is different to an industrial, it is often the case that labour market institutions lag behind and often remain tied to the policies and dictums of the industrial economy. Labour shortages, mismatch between job-seekers and employers, low mobility etc., are all outcomes of the inertia in the labour market institutions and their inability to quickly adjust to the post-industrial economy (Rauhut and Kahila, 2008).

The development we see today is a predictable outcome of an unfinished or incomplete structural change in the economy. The vested interests of the industrial economy are unwilling to enter the post-industrial economy. Institutional dynamism is therefore vital for progress, both economic and social. If the dynamism of its institutions disappears so will the prosperity of the country. The remnants of industrial society’s vested interests groups would however be the losers (Kahila and Rauhut, 2009).

An extensive theoretical literature on this topic exists. Institutions can contribute to both change and stability in political, social and economic life. Instead of being mere echoes of social forces, institutions, by transcending moral individualism and self-interest, buffer or transform social currents and define the norms, interests and beliefs in society (March and Olsen, 1989). Institutions play an important role in a society reducing uncertainty by establishing a stable, though not necessarily efficient, structure to human interaction. Resource inputs in production terms from land, labour and capital are involved in the transformation of physical attributes into

goods and in transactions for those goods. Together they constitute the total costs of production. In consequence, the institutional framework can stimulate or obstruct economic change with regard to production inputs (North, 1999).

This institutional dynamism is vital for progress, economic or social. The more dynamic are our institutions the more prosperous is our society. A prosperous society however leads to vested interests with the aim of rent-seeking, which, consequently, will reduce institutional dynamism. If the institutional dynamism disappears, so will the prosperity of a country (Rosenberg and Birdzell, 1986; North, 1999). Organisations for collective action take a long time to establish themselves, but when they are established social collapses etc. are often needed to make them disappear. The longer the period of time they manage to function the deeper they are able to penetrate society (Olsson, 1982).

Rauhut and Kahila (2008) find the policies to improve labour market imbalances in the Nordic countries implemented on national level, and welfare service provision on national or local levels. The labour market imbalances are embodied predominantly on regional level and, therefore, require regional approach. Within this regional context, could we expect that welfare service provision is also to larger extent a regional and not national or local challenge? National regulations and frameworks decide the most significant aspects of the ageing agenda, e.g. questions related to retirement, to the structure of welfare services and the labour market. The provision of welfare services is sensitive to administrative reforms. Therefore national-regional policy harmonisation is a crucial element of policy delivery in order to encourage efficiency and improve labour market incentives (Kahila and Rauhut, 2009).

The policies used to deal with labour market problems have been designed to solve the problems in an industrial economy on national level. This has been the reason for the moderate results in solving the problems of the post-industrial economy on regional level. Since the problems at the post-industrial labour market are somewhat different than the problems at the industrial labour market, the policy tools must be designed to deal with them. This means that new ideas, new trains-of-thought and long-term visions are needed to design new policies in regions, and labour market institutions must adjust to the post-industrial reality. An increasing regional diversity on the labour market and ageing have made policies in line with a 'one-size-fits-all' ideology outdated. Nevertheless, we still hang on to it.

6. DISCUSSION AND CONCLUSION

The overall conclusion is that labour market policies addressing the consequences of ageing must include two aspects: (1) they must allow for regional variations as ageing and the population structure is not evenly distributed geographically,

and (2) they must focus on the labour market inclusion of young adults – if young adults face such long unemployment and exclusion so that they become unemployable, who is then going to work and pay for the welfare of our elderly?

The welfare was organised to deal with the problems of an industrial society in Sweden. In the context of a post-industrial service society however the model is unable to deal with the welfare provision needs of its citizens particularly in a situation where vested interests try to slow reform to ensure the old model lives on (Rauhut and Kahila, 2008). What has this to do with population ageing? Nothing. Instead of taking the notion of an ideologically infused debate on the organisation of welfare head on it is easier to raise the bogeyman of ‘population ageing’ (Rauhut, 2010). Consequently, neither the *explanans* nor the *explanandum* of the current policy debate on ageing, its consequences and countermeasures are convincing.

The current policy response to ageing in Sweden suffers from the fact that issues related to young adults entering the labour market are simply not adequately addressed nor, indeed, is the regional perspective. This means that significant *lacunae* in the argument exist. The metropolitan areas in Sweden will not face any future problems with ageing, but the rural, peripheral and disadvantaged regions certainly will.

The policy approach has been to improve the employment opportunities and incomes of people in their municipality or region as a response to the failure of markets. The question, however, remains as to whether this is a policy designed to actually develop or simply to sustain such regions. The employment and development policies implemented thus far have not proven capable of removing regional disparities in regional attractiveness. The negative level of development seen in many regions has not been addressed by the creation of policies to improve their regional attractiveness thereby attracting labour and business (Eðvarðsson *et al.*, 2007). Now when the young adults move away from these regions to escape unemployment and marginalisation, ‘ageing’ is used as a scapegoat.

Questions over the retirement age are often placed on the back burner although discussion over the issue continues. The retirement age and how to keep the older labour active and in the labour force are however only short-term measures in the labour market; more focus must be on long-term measures such as stimulating a structural change in the economy, to let relatively weak groups on the labour market enter it and allow for regional labour market policies. The young adults, *i.e.* future labour and tax-payers, will gain from these suggestions. And so do we.

Acknowledgement. The authors are indebted to Andrew Copus, Torben Dall Schmidt, Svante Lingårde, Mats Johansson, Ingi Rúnar Eðvarðsson, Aki Kangasharju and Hild-Marte Bjørnsen for their useful comments and suggestions on a previous version of this paper.

REFERENCES

- ABRAMOVITZ, M. (1995), *Tankar om tillväxt*, Kristianstad: SNS.
- ANDERSEN, T. M., HOLMSTRÖM, B., HONKAPOHJA, S., KORKMAN, S., SÖDERSTRÖM, H. T. and VARTIAINEN, J. (2007), *The Nordic Model. Embracing Globalisation and Sharing Risks*, Helsinki: ETLA.
- ARBETSFÖRMEDLINGEN (2011), *Arbetsmarknadsrapport 2011*.
- BEHRENS, K. and THISSE, J.-F. (2007), 'Regional Economics: A New Economic Geography Perspective', *Regional Science and Urban Economics*, 37 (4), pp. 457–465.
- BENGTSSON, T. and SCOTT, K. (2010), 'The Ageing Population', [in:] BENGTSSON, T. (ed.), *Population Ageing – A Threat to the Welfare State? The Case of Sweden*, Heidelberg: Springer.
- BJÖRKLUND, A., EDIN, P. A., HOLMLUND, B. and WADENSJÖ, E. (1996), *Arbetsmarknaden*, Kristianstad: SNS.
- CANTILLON, B. (2010), 'Disambiguating Lisbon. Growth, Employment and Social Inclusion in the Investment State', *Working Paper*, 10, Herman Deleeck Centre for Social Policy.
- COPPEL, J., DUMONT, J. C. and VISCO, I. (2001), 'Trends in Immigration and Economic Consequences', *OECD Economic Department Working Papers*, 284.
- DALL SCHMIDT, T., KANGASHARJU, A. and RAUHUT, D. (2011) 'Future Labour Supply in Regions of the Nordic Countries', Paper presented at the NS-RSA meeting in Hemavan, Sweden, 31 March – 1 April.
- DOERINGER, P. and PIORE, M. (1971), *Internal Labor Markets and Manpower Analysis*, Lexington: Heath Lexington Books.
- EASTERLIN, R. A. (1996), *Growth Triumphant*, Ann Arbor: University of Michigan Press.
- EÐVARÐSSON, I. R., HEIKKILÄ, E., JOHANSSON, M., JOHANNESSON, H., RAUHUT, D., SCHMIDT, T. D. and STAMBØL, L. S. (2007), *Demographic Change, Labour Migration and EU-Enlargement – Relevance for the Nordic Regions*, Nordregio: Nordic Research Programme, Report 2.
- ELLIOTT, R. F. (1991), *Labor Economics*, London: McGraw-Hill.
- EUROPEAN COMMISSION (1993), *Growth, Competitiveness, and Employment. The Challenges and Ways Forward into the 21st Century*, COM (93) 700 final.
- EUROPEAN COMMISSION (2002), *Joint Report on Social Inclusion*, European Commission Directorate-General for Employment and Social Affairs.
- EUROPEAN COMMISSION (2004a), *Increasing the Employment of Older Workers and Delaying Exit From the Labour Market*, COM 146.
- EUROPEAN COMMISSION (2004b), *Facing the Challenge. The Lisbon Strategy for Growth and Employment*, Report from the High Level Group.
- EUROPEAN COMMISSION (2005), *Working Together for Growth and Jobs. Integrated Guidelines for Growth and Jobs (2005–2008)*, Luxembourg.
- EUROPEAN COMMISSION (2010a), *EUROPE 2020. A Strategy for Smart, Sustainable and Inclusive Growth*, COM (2010) 2020.
- EUROPEAN COMMISSION (2010b), *An Agenda for New Skills and Jobs: A European Contribution towards Full Employment*, COM 682 final.
- FALLON, P. and VERRY, D. (1988), *The Economics of Labour Markets*, Oxford: Philip Allan.
- FINANSDEPARTEMENTET (2007), *Äldres arbetsutbud och möjligheter till sysselsättning*, Ds 2.
- FORSLUND, A. and NORDSTRÖM SKANS, O. (2006), *(Hur) hjälps ungdomar av arbetsmarknadspolitiska program för ungdomar?*, IFAU Rapport 5.
- FREDERICKS, P., HARVEY, M. and MAIER, R. (2010), 'The "Paradox of the Shrinking Middle": The Central Dilemma of European Social Policy', *Critical Social Policy*, 30 (3), pp. 1–22.
- GOTLANDS KOMMUN (2008), *Regionalt tillväxtprogram för gotland 2008–2011*.

- JUNESTAV, M. (2007), *Socialförsäkringssystemet och arbetsmarknaden: politiska idéer, sociala normer och institutionell förändring – en historik*, IFAU Rapport 4.
- KAHILA, P. and RAUHUT, D. (2009), 'Policies for Maintained Employment and Welfare', [in:] RAUHUT, D. and EDVARÐSSON, I. R. (eds.), *The Potential Labour Supply in Nordic Countries*, Stockholm: Nordregio.
- KANGAS, O., LUNDBERG, U. and PLOUG, N. (2010), 'Three Routes to Pension Reform: Politics and Institutions in Reforming Pensions in Denmark, Finland and Sweden', *Social Policy and Administration*, 44 (3), pp. 265–284.
- KELLY, A. C. and SCHMIDT, R. M. (1994), 'Population and Income Change: Recent Evidence', *World Bank Discussion Paper*, 249.
- KRUGMAN, P. R. (1991), *Geography and Trade*. Cambridge: MIT Press
- KUZNETS, S. (1967), 'Population and Economic Growth', *American Philosophical Society Proceedings*, 111 (3), pp. 170–193
- KÖHLER, P. A., THORÉN, K. H. and ULMESTIG, R. (2008), 'Activation Policies in Sweden: Something Old, Something New, Something Borrowed and Something Blue', [in:] EICHHORST, W., KAUFMANN, O. and KONLE-SEIDL, R. (eds.), *Bringing the Jobless Into Work? Experiences with Activation Schemes in Europe and the US*, Berlin–Heidelberg: Springer.
- LUCAS, R. E. (1988), 'On the Mechanics of Economic Development', *Journal of Monetary Economics*, 22 (1), pp. 3–42.
- LÄNSSTYRELSEN I JÄMTLANDS LÄN (2009), *Regionalt tillväxtprogram för Jämtlands län 2009–2013*.
- LÄNSSTYRELSEN I NORRBOTTENS LÄN (2007), *Regionalt tillväxtprogram för Norrbotten*.
- MAGNUSSON, L. (2006), *Den tredje industriella revolutionen*, Stockholm: Norstedts.
- MARCH, J. G. and OLSEN, J. P. (1989), *Rediscovering Institutions*, New York: Free Press.
- MASKELL, P. (2001), 'The Firm in Economic Geography', *Economic Geography*, 77, pp. 329–344.
- MCNABB, R. and RYAN, P. (1990), 'Segmented Labour Markets', [in:] SAPFORD, D. R. and TZANNATOS, Z. (eds.), *Current Issues in Labour Economics*, London: Macmillan.
- NATIONAL RESEARCH COUNCIL (2001), *Preparing for an Ageing World*, Washington: National Academic Press.
- NORDISK MINISTERRÅD (2005), *Co-Operation Programme Labour Market and Working Environment 2005–2008*.
- NORDISK MINISTERRÅD (2008), *Program for Nordisk Ministerråds samarbete på arbetslivsområdet 2009–2012*.
- NORTH, D. C. (1999), *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- OECD (2003), *Ageing and Employment Policies: Sweden*, Paris.
- OHLSSON, R. and BROOMÉ, P. (1988), *Ålderchocken*, Kristianstad: SNS.
- OHLSSON, R. and BROOMÉ, P. (2003), *Generationsväxlingen och de sju dödssynderna*, Kristianstad: SNS.
- OLOFSSON, J. and WADENSJÖ, E. (2007), *Youth, Education and Labour Market in the Nordic Countries – Similar but Not the Same*, FAS.
- OLSSON, M. (1982), *The Rise and Decline of Nations*, Westford.: Yale University Press.
- RAUHUT, D. (2010), 'The Ideology of Apocalyptic Ageing', *Regionale Trender*, 1, pp. 35–43.
- RAUHUT, D. and JOHANSSON, M. (2010), 'Regional Settlement Patterns for 10 Immigrant Groups in Sweden 1975–2005', *Finnish Journal of Ethnicity and Migration*, 5 (1), pp. 19–28.
- RAUHUT, D. and KAHILA, P. (2008), 'The Regional Welfare Burden in the Nordic Countries', *Nordregio Working Paper*, 6.
- RAUHUT, D., RASMUSSEN, R. O., ROTO, J., FRANCKE, P. and ÖSTBERG, S. (2008), 'The Demographic Challenges to the Nordic Countries', *Nordregio Working Paper*, 1.
- REGION BLEKINGE (2008), *Tillväxt Blekinge. Regionalt tillväxtprogram för Blekinge 2008–2013*.

-
- REGION ÖREBRO (2008), *Tillväxtprogram för Örebroregionens näringslivsutveckling 2009–2013*.
- ROMER, P. (1986), 'Increasing Returns and Long-Run Growth', *Journal of Political Economy*, 94 (5), pp. 1002–1037.
- ROSENBERG, N. and BIRDZELL, L. E. (1994), *Västerlandets väg till välstånd*, Stockholm: SNS.
- SCHÖN, L. (2000), *En modern svensk ekonomisk-historia. Tillväxt och omvandling under två sekel*, Stockholm: SNS förlag.
- SOLOW, R. (1956), 'A Contribution to the Theory of Economic Growth', *Quarterly Journal of Economics*, 70 (1), pp. 65–94.
- TILLVÄXTVERKET (2011), *Tillväxtens guldägg: innovation och förnyelse i det regionala tillväxtarbetet*.
- VÄSTRA GÖTALANDSREGIONEN (2008), *Regionalt tillväxtprogram för Västra Götaland 2008–2013*.
- .