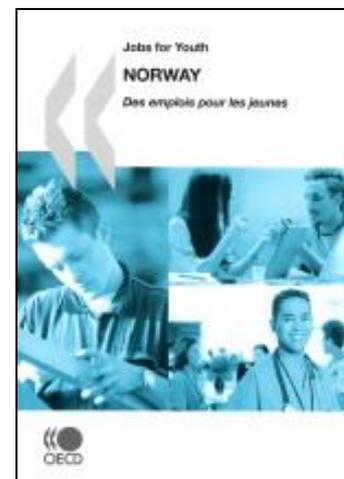


Jobs for Youth/Des emplois pour les jeunes **Norway**

Summary in English



On many counts, the youth labour market in Norway is performing very well. Norwegian youth entering the labour market face what is, by international standards, a low risk of unemployment and can command relatively high earnings. The youth (16-24) unemployment rate was 7.3% in 2007, 6 percentage points below the OECD average. The incidence of long-term unemployment is extremely low amongst young people: 2.5% of the total youth unemployment *versus* an OECD average of 19.6%. The earnings of Norwegian youth relative to those of adults are among the highest in the OECD. Young inexperienced and low-educated workers for instance earn more than 60% of the average wage. This is 20 percentage points above the OECD figure.

Despite this good performance, there are justifiable concerns about the school-to-work transition process in Norway and what happens afterwards. Six years after leaving school the number of young people receiving sickness- or disability-related benefits is almost double that of those who are unemployed or participants in an active labour market programme (ALMP).

The Norwegian government is particularly concerned about how well prepared its young people are when they leave the education system. Raising the average level of educational attainment, and reducing the incidence of school drop-outs, are among its highest priorities. The government is also aware of the need to develop labour market and welfare institutions that are likely to maximise youth labour market opportunities and incentives to participate in the workforce.

Although many sound measures were put in place recently to help improve the school-to-work transition, several barriers to youth employment remain. On the supply side, some youth still lack the basic skills they need to embark on a successful career in the labour market. Incentives to participate in the labour force may also be too low for some. Although school-leavers have no right to unemployment benefits, other branches

of the social protection system, notably those that distribute health-related benefits, are accessible and can operate as welfare traps. At the other extremity of the skill distribution, tertiary education students probably also lack incentives to graduate quickly.

On the demand side, relatively high entrance wages, set by collective agreements, in combination with strict employment protection legislation, can translate into less job opportunities for school drop-outs, immigrants of non-western origin, or young women with dependent children.

Early contact with the labour market *via* student jobs, but late graduation

Young Norwegians tend to get a first contact with the reality of the job market when they are still students. It is essentially from the age of 16 that they start taking (mostly part-time) student jobs. The incidence of jobs among students aged 18-20 was about 50% in 2006, which is below the countries with the highest figures on this indicator, but still well above the OECD average.

But in Norway up to 20% of individuals aged 24-29 are still studying, with no apparent impact on the share of young adults in possession of a tertiary degree. Many countries (*e.g.* Belgium, France or Ireland) achieve as well in terms of the final proportion of tertiary-degree holders, but with a much smaller proportion of “old” students.

Youth entering the labour market face a low risk of unemployment and can expect high relative wages

Comparative unemployment statistics show that Norway is doing very well for those who enter the labour market. As noted above, the youth unemployment rate (7.3%) was well below the OECD average (13.3%) in 2007. This also compares favourably with the situation in 1997 where the Norwegian youth unemployment rate was 10.6% compared with an OECD average of 15.6%. This good unemployment record owes something to the strong economic growth in Norway which exceeded 4% on an annual rate since 2005.

Finally, the relative wage of youth aged 15-24 (all levels of education combined) is the highest among OECD countries, amounting in 2006 to 70% of that paid to adults aged 35-44.

Young immigrants, however, do not fare so well

Young immigrants are, however, a notable exception to this picture of good labour market performances. The unemployment rate of youth (aged 20-29) born outside Norway and the EU-25 is 3.2 times that of the other groups: a higher ratio than elsewhere in Europe.¹

1. This is the ratio obtained using European Union Labour Force Survey (EULFS) data from Eurostat. A value of 3.2 is also obtained with register-based data provided by Statistics Norway on youth with/without an immigration background (*i.e.* with/without parents or grandparents born in Norway).

Not-employed: unemployed or inactive?

Assessing the country's overall youth labour market performance requires considering more than the (un)employment rate.

Available international data confirm that the average young Norwegian has a relatively low probability of being out of employment after leaving education. The non-employment rate for young men aged 20-29 in 2006 is low at 10.3%, below the EU average of 15.4%. It is 17.7% for young Norwegian women *versus* 27.7% for their European peers.

At the same time, labour survey statistics show that, in Norway, being young and non-employed generally means being "inactive". More than 52% of young men without employment are inactive. That share is only 39% in Europe on average. The same observation applies to young women who do not hold a job after education. More than 71% of them are inactive in Norway. In Europe on average, the figure is only 65%.

Having a greater share of inactive *versus* unemployed youth may not be major problem if the former group is small and the choice made to be inactive is a voluntary one. However, as noted above, the numbers of inactive youth are not negligible and the evidence presented in the report shows that there are insufficient incentives for many of them to look for paid work.

Education is predominantly general until 16

The Norwegian education system is predominantly general until the end of compulsory education at the age of 16. Its performance, as recently confirmed by the PISA² 2006 results, is disappointing in international comparison. Scores in core topics like mathematics, science and reading literacy are below the OECD average, despite a very high level of GDP *per capita* and an above-average public spending effort in education (6.2% of GDP in 2004 *versus* 5.0% for the OECD).

Vocational education appears in the curriculum after the age of 16. At that point about 46-48% of young people opt for vocational education (VE) programmes that aim at rapid labour market insertion. In Norway, vocational education is organised in a *sequential* way: it is a 2+2 model. Students first spend two years attending mainly theoretical classes on a full-time basis, and some then move on to (full-time) apprenticeship in a firm for another two years.

Concerning tertiary education attainment, Norway is among the best-performing countries in the OECD and the trend across generations is positive.³ This indicator contrasts with the relatively disappointing PISA results at the age of 15 and suggests a propensity to defer human capital investment. Whether such a pattern is optimal from an economic point of view remains to be seen. There is indeed growing evidence that the cost of acquiring skills and human capital is a rising function of age.

Beyond the age of 16, the fact that many youth leave school early is perceived by all stakeholders in Norway as a great source of concern. Measuring the size and nature of

2. The OECD's Programme for International Student Assessment.

3. Nevertheless, 2007 figures suggest that enrolment among young men has perhaps reached a plateau.

the school drop-out problem is a challenging task.⁴ It is, however, undisputable that there is a peak in the share of school drop-outs around the age of 17-18. But this is, to some extent, temporary, as beyond 20 the drop-out rate falls again, presumably because some of the early school-leavers manage to complete upper secondary education at a later stage, either by resuming upper secondary education or by exploiting the second-chance opportunities for adult education available in the country.

One group that should receive more attention is the children of immigrants of non-European or non-western origin. Although their absolute risk of being school drop-outs,⁵ at 17% in 2006, is lower than the EU average (24.3%), it is more than three times that of native Norwegians.

Educational reforms go in the right direction

Norway has a very advanced early-education system, characterised by a high attendance rate. In 2007, the government increased funding for this type of education by some NOK 3.2 billions (EUR 409 731 114). This goes in the right direction since there is much international literature testifying to sizeable long-term positive effects of early childhood education on school achievement, especially for children from disadvantaged background.

Disappointing PISA 2003 results convinced the Norwegian authorities of the necessity to strengthen the curriculum of their primary and secondary schools. The ensuing 2006 Knowledge Promotion Reform (*Kunnskapsløftet*) represents an attempt to boost the degree of command of fundamental skills. Its key ingredients are: *i*) nationwide standardised curricula for core topics; *ii*) more external testing; and *iii*) a greater degree of school autonomy. In generic terms, this reform is an attempt to make the system slightly more output- or result-driven. However, the relatively poor PISA 2006 results cited above suggest that the reform is overdue and perhaps should be strengthened.

With the 2007 Strategic Plan “Equal Education in Practice”, the focus is also clearly on enhancing command of the Norwegian language among immigrants of non-western origin and their children. Adopted measures include: *i*) language stimulation in kindergartens; *ii*) language screening tests in post-natal health clinics; *iii*) extra funding for primary or secondary schools with a high concentration of immigrant pupils; *iv*) more apprentice places for immigrants; *v*) broader access to tertiary education; and *vi*) measures to promote Norwegian proficiency among adults, in collaboration with municipalities that distribute social assistance.

Since 1994, the Norwegian authorities are also committed to boost vocational education beyond the age of 16. Exposure to vocational curricula probably makes it easier for students to enter the labour market. Such a learning environment could also be more adapted to individuals who are less receptive to abstract thinking.

Decision-makers should, however, pay attention to two potential pitfalls. The first has to do with the four years it takes to complete vocational education in Norway. This is

4. For instance, the recent adoption by Norway of a new, more stringent National Education Attainment Classification (NEAC) translates into higher school drop-out rates in international comparisons.

5. Using the “old” NEAC, implying that people who completed only one or two years of upper secondary education are not considered as drop-outs.

perhaps too long for some students aged 16. Such a relatively distant horizon may *de facto* increase the risk of drop-out. An alternative would be to structure VE as a *continuum* of levels, possibly based on the principle of cumulative learning credits and certificates informing potential employers about intermediate accomplishments. The Norwegian authorities are currently testing the *letter of competence* model that goes in that direction: after one year, successful VE students get a certificate that can be used on the labour market to signal their attainment.

The second problem relates to the 2+2 nature of vocational education in Norway. Unlike in Germany, the Netherlands or Switzerland, VE students are actually on a full-time basis in schools during the first two years before they get the possibility to become apprentices. That probably makes it difficult for those students who are not receptive to traditional/school-based teaching methods and could also entice some of them to drop out.

Career guidance inside secondary schools is also at the forefront of the reform agenda. There is in Norway a strong focus on developing guidance within secondary and upper secondary schools. Such a policy faces several challenges, however. There is a need to deliver guidance that is relevant *i.e.* rooted in a clear and up-to-date knowledge about current and expected future labour market needs. The decision to split social/psychological guidance from study and career guidance, following an OECD report issued in 2002, was probably a first step in the right direction.

It is also worth noting that since 1994, each county possesses a follow-up service, with a mandate to contact those who do not participate in post-secondary education. This mandate was reinforced in 2007 by an agreement between the Ministry of Labour and Social Inclusion and the municipal sector. The follow-up system acts as a safety net for school drop-outs and other youngsters between the ages of 16 and 19, who are neither in employment nor in education or training (the so-called NEET group).

But more needs to be done to ensure that all youth leave education with recognised qualifications to set up a career

- *Remove the remaining barriers to pre-schooling participation.* Kindergarten attendance means the loss of a lump-sum allowance (*Kontantstøtte*) aimed at rewarding families who decide to take care of their children at home. The loss of this allowance could represent a disincentive for low-income families to enrol their children in kindergarten. And there is evidence that families with a non-western background use the allowance to a larger extent than other families. But this is a group for whose children early exposure to education and the Norwegian language matters most. The allowance's potentially adverse effects on pre-schooling participation should be carefully evaluated. If these effects can be ascertained, authorities should consider abolishing the allowance after the age of 12-18 months (*i.e.* the period of life during which close infant-mother ties is considered as highly beneficial by most experts on child development).
- *In primary and secondary education, enhance the Knowledge Promotion Reform and make sure local schools have significant autonomy regarding teacher recruitment and promotion.* There is evidence that externally-defined standards such as those set out in the Knowledge Promotion Reform help

combat the tendency of teachers to lower expectations and demands when confronted with presumably low-skilled pupils. Simultaneously, those who operate municipal and country schools on a day-to-day basis (*i.e.* heads of school) should be granted adequate autonomy concerning the teachers they recruit and promote. An output-based scheme cannot succeed if the local agents are not granted the autonomy they need to select and reward⁶ the most crucial input of any teaching process: educators or teachers.

- *In order to reduce drop-outs after age 16, explore the opportunity to introduce more flexible supply of vocational education (VE) at the beginning of upper secondary education.* In Norway, individuals express their preferences, but it is eventually up to a central planner (at the level of the county) to ensure a good match between supply and demand. Some evidence hints at persistent mismatch: about 10% of young people do not get their first-choice option of field of VE study and/or school. Another issue is whether counties, particularly in remote areas, have the adequate resources and incentives to offer the full range of VE services. Establishing a procurement quasi-market, where private operators have the possibility to enter the VE sector, could perhaps help alleviate some of these problems.

Carefully monitor potential demand-side barriers to youth employment

There is no statutory minimum wage (or sub-minimum wage) in Norway. Collective agreements make no distinction when it comes to workers above the age of 18 years. Consequently, many young workers get the adult wage agreed upon under collective agreements: the so-called *tariffs*.

Young inexperienced and low-educated workers in Norway earn more than 60% the adult⁷ wage. This is 20 percentage points above the OECD average and reflects Norway's "compressed" wage structure. Norway has also one of the strictest employment protection legislation among the OECD countries, including for workers on temporary contracts who, since 1995, benefit from "preferential rights" to vacant positions within their firm. These two factors could well combine to yield fewer jobs for low-educated and inexperienced individuals.

To tackle these demand-side barriers, the following measures should be considered:

- *Reduce the cost of employing low-skilled youth until they turn 23.* One option would be to introduce a low-skilled youth sub-minimum wage – or more appropriately in the Norwegian context a youth *sub-tariff* – comparable to what is to be found in many other OECD countries. In practice, this could be done by extending to all school drop-outs the wage regime⁸ currently applicable to apprentices; starting at 30% of the current standard entrance *tariff*⁹ for those aged 16 and rising incrementally to, say, 70-80% for those

6. This does not necessarily imply the generalisation of individualised performance-based pay schemes, known for being particularly difficult to implement in the education sector. What is key is to ensure that heads of school who are held accountable, have some leeway as to which teacher moves up the – externally defined – pay ladder.

7. Adults are those aged 35-44.

8. But not the subsidy regime whose rationale is to cover the opportunity and direct costs of employer-provided training.

9. In 2007, NOK 300 000 (EUR 38 412) annually.

aged 22. The adult rate would apply to school drop-outs only from the age of 23. This would also raise the degree of income differentiation across educational groups and the incentives to invest in human capital.

- *Another option would be to achieve the same cost reduction by resorting to targeted wage subsidies.* If it is infeasible in the Norwegian context to introduce a *sub-tariff* for low-skilled youth, the same effect could be achieved by a targeted hiring subsidy. There are Norwegian precedents for this. It would obviously come at a certain cost for the taxpayer, but would preserve the social partners' strong prerogatives in the area of wage settlement. A major drawback, however, is that such a policy would have no effect on the incentive to invest in education: low-educated workers would preserve the current – relatively high – entry-level wage.
- *In parallel, make access to full welfare support beyond the age of 16 conditional on having attained (or being willing to take the necessary steps to attain) the equivalent of an upper secondary degree.* Reference for such a reform could be provided by the Dutch *Leerwerkplicht* reform (*i.e.* the obligation to study or work), whereby all youth aged 18-27 who have not completed upper secondary education are required to resume schooling (or to work). Unless this condition is met, young people can be fined or denied (part of) their social benefits. Such a move would be desirable in the case of lower entry-level wages for low-skilled youth, simply to avoid creating (or reinforcing) welfare traps.
- *Carefully evaluate the effect on the labour demand for low-skilled young workers of the “preferential rights” present in the Working Environment Act for part-time and fixed-term contracts.* These rules give priority to vacant positions to workers holding such contracts. They are aimed at augmenting their chance of accessing permanent and full-time positions. But they could also alter the willingness of risk-averse employers to recruit young individuals with less advantageous profiles. In turn, this could limit the scope for work experience accumulation, and alter the stepping-stone function of non-regular contracts. For these reasons, it is important to monitor rigorously the effects of these rules on the hiring and retention of young workers, and be prepared to take steps to amend them if the effects are negative.

Unemployment but also welfare policies should foster youth employability, not benefit dependency

Unlike some other OECD countries (Belgium, France or Spain), where the first steps beyond school are characterised by many unemployment spells, a more frequent destination in Norway is social assistance, long-term sickness or disability benefit receipt.

Access to unemployment insurance (UI) benefits in Norway is restrictive (*e.g.* past contribution requirements, strong mutual obligations, short duration, etc.). But strict eligibility conditions risk triggering *displacement* effects. By making access to UI quite restrictive, Norwegian authorities have probably contributed to push some young people out of the labour force into inactivity. Being non-employed generally means being “inactive” rather than unemployed, for both young Norwegian men and women. Although the majority of inactive youth do not receive benefits, the number of

sickness- or disability-related allowances beneficiaries is non-negligible. Six years after leaving school, the share of those receiving sickness or disability-related benefits (4.4% of the cohort) is almost double that of those who are unemployed or participating in active labour market programmes (ALMPs).

Within Norway's welfare system, benefit replacement rates are quite high for low earners and this may create an adverse selection problem unless the benefits are highly activated. The replacement rate when receiving sickness benefits is 100%. Moreover, disability benefits (and presumably rehabilitation benefits) are as generous as UI benefits, but probably more easily accessible. This further supports the idea that some of the welfare schemes (disability or sickness and rehabilitation) present the risk to act as substitutes for UI.

Although the number of young workers who are absent due to (doctor-certified) sickness has decreased slightly recently, the trend for those receiving rehabilitation or disability benefits is positive. Such a development sits oddly with the generally high health premium associated to the fact of being a young person.

Longitudinal data reveal that the incidence of those receiving benefits for health-related reasons (sickness, rehabilitation or disability benefits) is limited one year after leaving school, but tends to increase sharply afterwards. The first 4-5 years are thus crucial to avoid inflows into a status that tends to lead to long-term benefit dependency. The probability of returning to employment among young people receiving health-related benefits is low. More than 88% of those who received disability benefits one year after leaving school still receive them five years later.

Although the Norwegian sickness and disability benefit system contains many sensible activation-like provisions to maximise the chance of returning to work, the evidence indicates that, in practice, they do not work effectively.

Norway's major challenge is to avoid displacement effects from unemployment (where young people are still "connected" to the labour market) to welfare (where the distance from the labour market is often *de facto* much greater). It must be a high priority to prevent as many young people as possible from entering sickness and disability benefits, unless there are good reasons for it, and, if they do go in disability benefits, to target them with effective rehabilitation measures in order to help them find work.

What is needed is a comprehensive approach regarding how *all* types of benefits (unemployment, health-related or social) are granted to individuals. It does not make sense to be restrictive with UI benefits, and to strongly activate those who receive them, if a side-effect of such a policy is to push more people out of the labour market, into inactivity. A very promising evolution is that Norway decided in 2006 to gradually merge its formerly distinct Public Employment Service (PES) and National Insurance Service, to form a new one-stop shop by 2009 at the local level: the Employment and Welfare Agencies (the so-called NAVs). One of the main objectives of the reform is to persuade employment and welfare professionals – who will share the same facilities – that they should privilege employability over benefit eligibility, when screening their clients.

It will not be an easy task to ensure that the NAV reform is a success on the ground given the problems of governance between the central ministries and the large autonomy of municipalities or counties. Norway has a strong tradition of local autonomy in the delivery of social services. It is a common feature of all recent policy

reforms that they preserve the constitutional right of local authorities to decide (and, to a certain extent, monopolise) the delivery of most social and educational services. There is no doubt, however, that the NAV reform is a milestone in Norway's efforts to bring welfare recipients a step closer to the labour market.

The major source of concern, in the context of this review, remains how the NAV reform will target youth. Although all age-groups should be activated within the new NAV framework, youth should be prioritised. Youth who become long-term benefit recipients are likely to have problems for many years or even decades. So it makes sound economic and social sense to reduce the numbers in this group from an "investment" perspective. As the old English saying goes, "an ounce of prevention equals a pound of cure".

The following measures should be considered:

- *Better identify at-risk individuals aged less than 30 as the group that should be targeted and activated in priority among NAV clients.* The NAV Reform represents a shift from a multi-tier system towards a single-tier one, whereby various categories of benefit recipients with very different needs and characteristics are handled by the same pool of caseworkers managing a unified system of benefits. The latter need clear guidelines as to whom they should prioritise. Confronted with a more heterogeneous population than previously, they also need adequate profiling tools that will help identify as quickly as possible those at risk of long-term dependency. Norwegian authorities are currently developing a procedure aimed at rapidly assessing individuals' "work capacity". A possible model is Denmark, where the introduction of a profiling system coincided with the 2002 reform harmonising the rules applying to UI and social assistance benefit recipients. Profiling tools in Denmark include *i)* a "job barometer", which is a graphical representation of the employability predictions based on a statistical model; and *ii)* a public assistance record, which gives an overview of the person's previous periods on public assistance.
- *Invest more time and money to define the new procedures and mutual obligations that will govern the day-to-day work of the NAV employees, particularly when they are dealing with younger clients cumulating multiple disadvantages.* Those spelt out by the new "Follow-Up Guarantee" applying to youth aged 20-24 represent a first step in the right direction. But the scheme's effectiveness could be improved by adopting a more rigorous mutual obligations approach, similar to the one applicable to unemployment benefit recipients. The rules governing the "Follow-Up Guarantee" insist on NAV's obligation to offer motivation and recruitment assistance to youth. But they apparently fall short of generalising the idea of moderate benefit sanctions in case of repeated absence or unwillingness to participate.
- *Counterbalance the strong dose of local autonomy among municipalities by output-based evaluation mechanisms* in order to avoid excessive heterogeneity in the way national goals are implemented at the local level. In practice, this could mean resorting to benchmarking, peer reviewing and other kinds of "soft" incentives. A point-based funding system could be implemented whereby extra weight is assigned to reduced inflows into benefit reciprocity of younger individuals. The same system should incorporate safeguards to avoid

cream-skimming by operators. Examples of these safeguards are to be found in Australia's "Star Ratings" system: an output-based evaluation mechanism that ranks operators on the basis of their job placement, adjusted to take account of the socio-economic profile of their clients and the labour market conditions in the region they live in.

- *Diversify the providers of training and placement services.* NAV officers currently have the possibility to buy health and rehabilitation services from private providers. There may be a case for developing these mechanisms a step further. A greater reliance on private providers in the area of training and job placement would increase the diversity of solutions on offer for groups in need of highly tailored answers to their problems. It could perhaps also have a positive effect on costs. In the 1990s, Australia for example outsourced many employment services to non-profit and profit-seeking agencies. The result was a large drop in the unit cost of services, with no apparent loss in the quality.
- *Develop a "residential" option as part of the arsenal of measures aimed at helping very disadvantaged youths.* Standard ALMPs are unlikely to work for the most disadvantaged youths who usually cumulate social risk factors (low education, ethnic minority background, drug use, etc.). For this group, more radical options are needed. One possibility is to develop, perhaps within the New Qualification programme, a network of institutions offering a boarding-school type environment, delivering a mix of *i*) adult mentoring; *ii*) work experience; and *iii*) remedial education. Models for this initiative could come from the long-standing US Job Corps programme. The Nordic well-established tradition of Folk High Schools could also prove a useful reference.

Other welfare reforms are probably also needed, but they are not youth-specific and have been largely covered by the 2006 OECD Review on Disability.¹⁰ Judging by the importance of health-related problems among welfare recipients, including fairly young ones, any serious attempt to reform the current state of affairs probably requires a re-examination of the gatekeeping function of General Practitioners in order to reduce inflows into long-term sickness and disability schemes. Assuming that financial incentives also matter, a clear work-incentive gradation into Norway's system of benefits would definitely help: the generosity of health-related benefits, covering long-term sickness and minor disability risks, should be reduced, and set to a level that is intermediate between UI benefits and social assistance.

10. OECD (2006b), *Sickness, Disability and Work: Breaking the Barriers: Norway, Poland and Switzerland*, Vol. 1, Paris.

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