

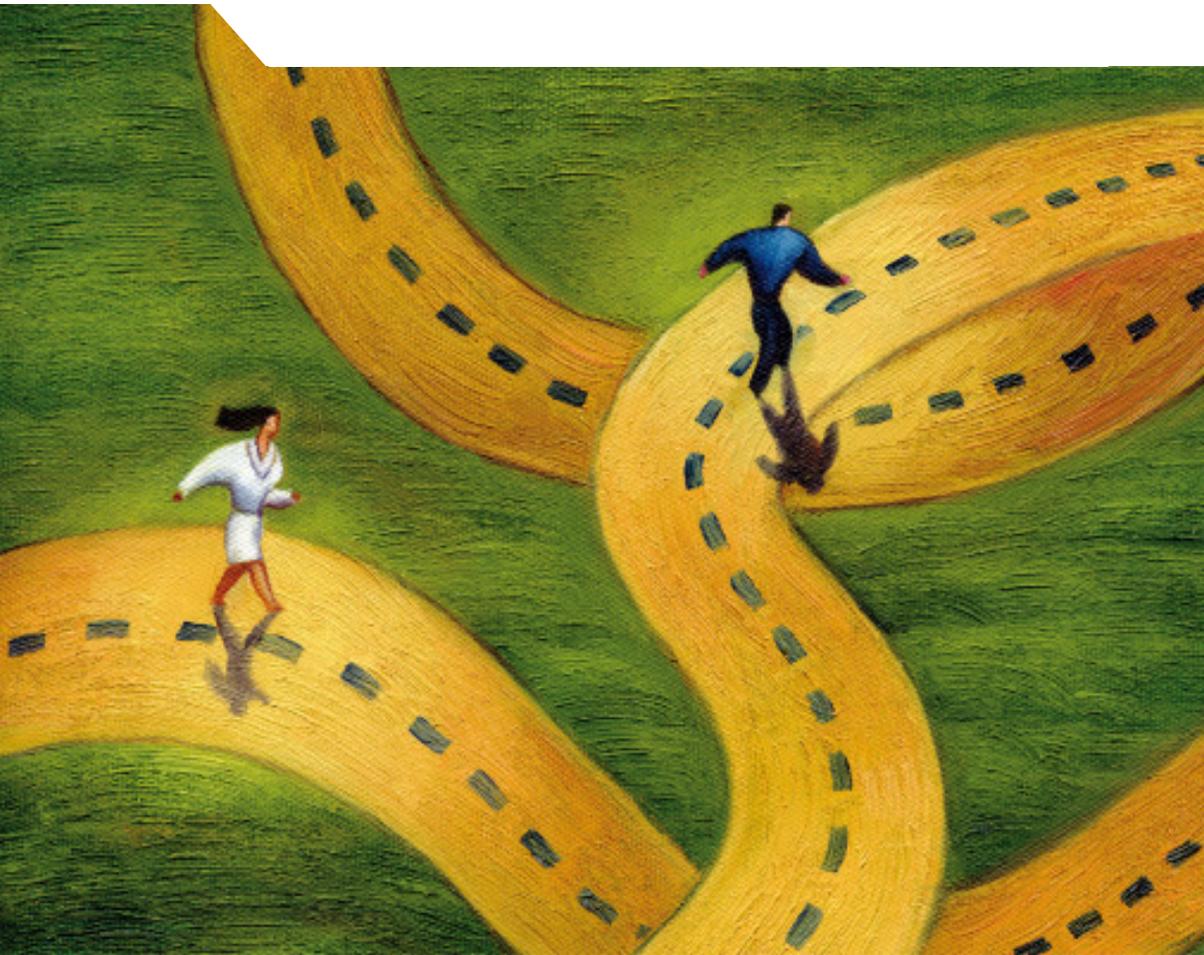


Back to Work

SWEDEN

**IMPROVING THE RE-EMPLOYMENT
PROSPECTS OF DISPLACED WORKERS**

EXECUTIVE SUMMARY AND ASSESSMENT AND RECOMMENDATIONS



Executive summary

Workers who lose their jobs, as firms close or downsize in response to fluctuations in demand and production, face substantial economic and non-economic costs. On average, each year around 2.1% of Swedish workers with at least one year of tenure involuntarily lose their job. In an international comparison, Sweden has been relatively successful in minimising the adverse consequences for workers who bear the brunt of structural adjustment. This is mainly due to the longstanding tradition of collaboration between the social partners to share responsibility for restructuring, which has resulted in special arrangements and practices that provide help to workers affected by economic change much faster than in most OECD countries. As a result of this approach, at over 85% the share of retrenched workers who find a new job within one year is higher than in any other OECD country. The Swedish strategy not only has a distinct advantage in the way firms adapt to change but also underpins public acceptance of economic restructuring.

Notwithstanding this positive framework, there is room to improve policies designed for displaced workers. Remarkable inequalities exist in both the Swedish labour market and in the way workers are treated. The labour market now strongly displays the characteristics of an insider-outsider system. Outsiders in particular include the large and increasing number of fixed-term and temporary workers, mostly low-skilled workers and young people, who suffer the most because they are generally the first to be dismissed. Inequalities are reflected in poorer benefit coverage and lower benefit entitlements on the one hand, and lesser and later job counselling and poorer access to training on the other. Addressing these inequalities will be critical for Sweden to reap the benefits from economic change, minimise the individual costs from restructuring and assure optimal job-to-job transitions for all workers. This will require a reflection on the appropriate balance of responsibilities between the government and the social partners and strengthening of the integration of policies and actions from both sides.

The OECD recommends that policy makers and stakeholders in Sweden:

- Adjust employment protection legislation in a way that preserves its strengths while further easing the *last-in-first-out* rule which hampers optimal economic restructuring and currently presents a barrier to entry into stable jobs for vulnerable groups.
- Expand the adjustment support provided by Job Security Councils during the notification period to all types of displaced workers, including youths and workers with atypical employment contracts.
- Improve timely re-employment counselling and support by the public employment service to cater better and earlier for the displaced workers who face the highest adjustment costs.
- Invest in and improve access to training for low-skilled and blue-collar displaced workers, who are disadvantaged in today's dual-support system.
- Broaden the coverage in the unemployment insurance to re-establish the legitimacy of the system and to provide adequate income support to all displaced workers and all unemployed people more generally.

Assessment and recommendations

As in other OECD countries, job displacement as a consequence of economic restructuring is a prominent feature of the Swedish labour market. On average during 2002-12, 2.1% of employees lost their job each year due to economic reasons such as firm downsizing and establishment closures. There is no indication that displacement rates in Sweden have risen permanently since 2000, but they increased during both the severe economic crisis of the 1990s and in the recent global financial crisis (GFC). Like in some other OECD countries, displacement rates in Sweden are higher for men, young and low-skilled workers than they are for, respectively, women older and better-skilled workers.

Once displaced, the majority of the workers concerned find a new job quickly. On average, during the period 2000-09, around 85% of displaced workers were re-employed within one year. This re-employment rate is higher than in other OECD countries for which comparable data are available, such as Denmark, Finland and the United States.

However, even if most Swedish displaced workers manage to find a job quickly, on average, they often have to accept lower wages than in the previous job. Average annual earnings fall by approximately 4 to 5% in the four years after displacement, and although this is less of a drop than in some other OECD countries, the losses seem to be more persistent than in other countries, such as Denmark, where earnings losses are larger initially but less long-lasting. Wage losses are most persistent for older and low-skilled displaced workers.

Wage losses after displacement can be largely attributed to the loss of job-specific skills. Around 5% of Swedish displaced workers are professionally downgraded, implying sizeable and long-lasting human capital losses. These findings suggest that some groups of displaced workers in Sweden do much worse than others. It will be crucial to provide adequate services to help the most disadvantaged groups in finding a suitably-matched job quickly.

Sweden has been largely successful in responding to structural change whilst attenuating the negative effects on workers

Over the past decade, Sweden has been successful in promoting labour market adaptability by strongly supporting workers rather than preserving unviable jobs, and thus responding well to the challenges of globalisation and technology change, while being able to protect workers who bear the brunt of economic restructuring. Much of this success can be attributed to the role of the social partners who have developed a solid infrastructure to anticipate economic changes on the one hand and manage structural change via the so-called *Job Security Councils* (JSCs) on the other. These JSCs, established through collective agreements and financed by employers, run parallel to the public employment service (PES) and function on the premise that workers given notice of dismissal can easily become demoralised and can experience difficulties in adapting to the new situation.

Among the more than ten JSCs, which together cover around 80% of the Swedish workforce, the two most important (and the main focus in this report) are *Trygghetsrådet* (TRR), targeted at white-collar workers, and *Trygghetsfonden* (TSL), covering blue-collar workers. JSCs play a strong role at various stages of the restructuring process and their support programmes may take different forms including providing advice and consultation to employers and trade unions as well as tailored transition services and guidance to workers to find new jobs.

In contrast to the vital role of the social partners in Sweden, the government has been largely absent in policy making for displaced workers. Its role has been limited predominantly to the provision of a sound social security system, rather than by offering effective re-employment support. However, some interesting initiatives focused on displaced workers were introduced after the onset of the GFC.

Overall, the high re-employment rates and moderate income losses experienced by displaced workers suggest that the unique Swedish model works well; even so, it is not easily replicable in many other OECD countries as it requires a strong social partnership. A major challenge for Sweden, however, is to adapt the model in a way that it benefits all individuals in the labour market and especially those who lose their jobs due to structural economic adjustments. Currently, there are major inequalities in the system: the type of services received varies with the JSC and a very significant and increasing share of the workforce is not covered at all. In view of this, a new balance should be sought between the government and the JSCs in which the government needs to play a greater role and insure that all displaced workers receive the necessary support in case of dismissal.

Prevention measures are rare while employment protection legislation is strict

In comparison to other OECD countries, Swedish policy places significant emphasis on anticipating and managing structural change. This is attainable because of the strong dialogue between the social partners on the one hand, and the role of JSCs on the other, which provide tailored advice and counselling services to both employers and trade union representatives at an early stage, that is when employers are first considering their restructuring options.

Common policies to prevent excessive layoffs such as wage adjustment and short-time work (STW) schemes have historically been taboo in Sweden, but have recently played a larger role. Thanks to timely wage negotiations between social partners, real hourly wages have shown considerable flexibility in the peak crisis years and more so than in most other OECD countries. A temporary STW scheme, without any financial support from the government, was also negotiated by the social partners to limit the number of layoffs in the manufacturing sector. In the aftermath of the crisis, in 2013, social partners signed a key agreement which allows employers to reduce working times with accompanying reduction in pay if the local parties agree. At the same time, the government established a national STW programme which is applicable to all workers in the private sector and is co-funded by employers, the employee and the government. As a result, two systems for STW currently exist in Sweden in parallel: one with and one without a state subsidy.

The national scheme is welcome. It is well-designed to minimise associated displacement and deadweight costs. However, eligibility criteria could prove to be too strict: it can only be used in extremely weak economic conditions and cannot be activated without evidence showing – as defined by the National Institute of Economic Research – that the economic crisis is demand driven. Meanwhile, the costs borne by the government diminish proportionally, the larger the working-time reduction agreed between the worker and the employer. While this feature can reduce possible deadweight costs, it could potentially discourage take-up when short-run economic conditions threaten employment that is viable in the long run. Going forward, the scheme should be carefully evaluated to determine the appropriate cost-sharing and the factors that contribute to the degree of programme uptake.

Compared with their counterparts in other OECD countries, Swedish employers face firm regulatory restrictions on layoffs. Dismissal costs are appropriate, to ensure that employers internalise at least part of the

social cost of labour turnover and to protect workers from arbitrary actions. The considerable advance notification period of 6 months (at times reaching up to 12 months when negotiated between the social partners) allows for early intervention by JSCs and facilitates job-to-job transitions for many workers without a period of unemployment. However, there are a number of other provisions which impose significant additional costs on employers for laying-off workers and create large disparities in the effective degree of employment protection that different groups of workers face. These include the mandatory order that must be respected in the selection of workers to be laid-off in the case of redundancy, i.e. the so-called *last-in-first-out* (LIFO) rule, the rehiring priority and the obligations employers face with respect to the internal reassignment of employees.

It has been argued that collective agreements in Sweden provide a considerable amount of flexibility in practice to deviate from the legal framework but they have proved to be insufficient to combat the insider-outsider divide in the Swedish labour market. The gap in the rigidity of EPL between permanent and temporary workers is among the highest in the OECD, and penalises vulnerable groups such as youth and low-skilled workers who already have a high risk of displacement. There is some evidence suggesting that temporary contracts can be a stepping stone into stable employment for a number of workers, especially youth. However, the lower-than-average training received by temporary workers and the LIFO rule increase their risk of future displacements, thus leading to a vicious circle of temporary jobs interspersed with unemployment for some young workers. Against the relatively well-developed employment support system offered by the JSCs to displaced workers together with the more generous income support provided to older workers, it would be desirable to further ease the LIFO rule to share the costs of structural adjustment more equally among different population groups.

Access to effective re-employment support for the most vulnerable groups of workers is limited

Unlike in many other OECD countries, substantial efforts are made in Sweden in providing re-employment support to displaced workers as soon as they receive notice. The comparatively long notice period is thus used productively to help workers find a new job, to take advantage of existing employer networks and to utilise workers' skills.

Overall, JSCs are very successful in finding new jobs for workers who receive a dismissal notification. On average, 80 to 90% find new jobs within 7 to 8 months, often without using any PES services. However, there are important differences between white-collar and blue-collar workers.

For example, while 65% of all white-collar workers serviced by TRR find a new *permanent* job within 6 months, this is the case for only 38% of blue-collar workers affiliated to TSL. There are also large differences in the quality of service which blue-collar workers receive from their JSC, with significant variation in the job-finding rate (45 to 90%) depending on the supplier of these services. This is because the TSL, contrary to the TRR, outsources interventions to a network of over 100 smaller providers with little monitoring of outcomes. Quality assessment should be improved to assure that only the better service suppliers remain in the market.

Successful intervention by JSCs, however, does not reach all displaced workers and a number of challenges remain. First, workers with temporary and fixed-term contracts are excluded from the tailored support of JSCs. This group includes many youth and other vulnerable groups who are already penalised by the strong insider-outsider system and who are more likely to be dismissed first. Second, many of those who qualify for JSC support receive only partial services, especially blue-collar workers. Currently, TSL provides very few training opportunities to its members, the main training provider for blue-collar displaced workers therefore being the PES. This division of responsibilities whereby job-search counselling during the notice period is in the hands of the JSCs and training provision under the PES, is likely to result in substantial delays in the provision of support to those who need it the most. The lack of training is in part directly linked with the limited resources allocated to TSL clients (SEK 22 000 per employee, equivalent to approximately EUR 2 300) in comparison with TRR which applies no such caps on spending per client. Only 5% of this fee is devoted towards training measures. Increasing the JSCs' resources for blue-collar workers would be one way to improve their access to training. Greater resources could be achieved either by raising employer contributions to TSL or by setting up a tripartite model whereby the government could also contribute to JSCs for blue-collar workers.

The role of the public employment service needs to be strengthened

Another challenge is to strengthen the support provided by the PES which is an important actor for a number of displaced workers who do not access the services provided by JSCs. However, the PES often fails to deliver timely and tailored support to this group. Intensive re-employment support comes in too late, usually only after one year of unemployment, and is often reserved for the most disadvantaged groups in the labour market. A profiling tool has recently been developed and is used as decision support for PES case workers in assigning workers to an early intervention group. However, the profiling tool does not include information on the underlying reason for a dismissal to expedite the referral process to more intensive labour market programmes. The tool should recognise the specific needs of displaced workers, as done in some other OECD countries.

At the same time, the share of training-related expenditure in total active labour market programme spending has collapsed over the past 15 years. This has been attributed to a number of policy evaluations demonstrating that training has been an ineffective instrument in helping unemployed people into new jobs. However, both the Swedish and international literature that tracks employment outcomes for a long period (five years or more after entry into a training programme) find that training has a long-term positive impact on participants' employment and earnings, especially for displaced workers with low skills and limited formal schooling. The government should therefore reallocate resources to training and set-up pilot programmes targeted at the training needs of displaced workers. In addition, the PES should place a greater focus on early skills validation to identify unemployed people facing barriers in capitalising on their often rich but non-recognised job-related skills accumulated during their career.

Finally, both the PES and the JSCs should be encouraged and requested to improve their data collection systems. Stronger evidence is needed to be able to judge better what works well and what works less well, to further improve the efficiency and equity of Swedish labour market policies for displaced workers.

Disparities also exist in the provision of income support

Sweden has a well-functioning social security system overall, but the unemployment insurance (UI) scheme creates challenges for some group of unemployed people in the way they are (or are not) insured and the level of payment they can receive. Precise data on UI coverage are not available, but the UI pseudo-coverage rate – the number of UI beneficiaries (based on administrative data) over the number of unemployed people (measured by the labour force survey) – has been declining for a long time, especially in the past ten years. By 2012, UI coverage such defined had declined to 28% on average. The declining trend can be attributed to a combination of factors including i) a tighter eligibility criteria, ii) the increase in part-time and temporary jobs, iii) changes in the composition of the unemployed population, and iv) the introduction of the so-called people activity grant which replaced UI for the long-term unemployed. While some unemployed are likely to be covered by other parts of the social insurance system, the declines in coverage rates have been so large that this increasingly undermines the legitimacy of the unemployment insurance system.

Moreover there are significant disparities in the provision of income support between different groups of unemployed. Coverage rates are notably lower for low-skilled and blue-collar workers and for young adults: precisely the groups that are at greater risk of displacement. They are also

likely to receive less generous income support than their long-tenured, older, white-collar counterparts who typically benefit from top-up payments by the JSCs or the trade unions. It is currently not possible to analyse in more detail the extent to which displaced workers receive and cumulate different types of income support. It will, therefore, be important for the government to put in place a monitoring system that includes benefits that are not publicly provided to track income support received by displaced workers and unemployed people more generally. It would then be possible to properly assess inequalities in the system and evaluate policies and institutions currently in place to provide income support to job losers.

It will be important for Sweden to assure that all workers losing their job are covered by UI, as this would prevent inequalities between groups of insiders and outsiders from increasing further. Fast increasing poverty rates among unemployed people in Sweden in recent years are indicative of rising problems in the provision of income support mandatory contributions to an UI fund for all workers would be the obvious solution to assure equal treatment of all job losers and would re-establish the insurance function of the UI scheme.

Encourage systematic evaluations of policy measures provided by the social partners

Despite of an array of good programmes targeted at displaced workers, rigorous evaluations on their effectiveness in terms of employment outcomes are largely missing, like in many OECD countries. In particular, the large number of programmes targeted at displaced workers under the responsibility of the social partners, are rarely monitored. Regular and rigorous evaluation of programmes such as the employment services provided by TRR and TSL should be encouraged to improve policies for displaced workers. This would also facilitate the portability of such programmes to other OECD countries.

Key policy recommendations for Sweden

Maintaining labour market flexibility whilst protecting vulnerable groups

- Adjust employment protection legislation (EPL) to reduce the gap between temporary and regular contracts and to further improve the ability of the Swedish labour market to respond to economic change.
- Further ease the *last-in-first-out* rule which determines the priority of dismissals, disadvantages particular groups of workers and hampers optimal economic restructuring.
- Evaluate the effectiveness of the new short-time work scheme recently introduced by the government to determine the appropriate sharing of costs and the factors that contribute to programme uptake.

Offering effective re-employment support to displaced workers who need intensive help

- Seek ways to extend the Job Security Councils' (JSCs) coverage to all types of displaced workers to overcome the current disparities in access to the system.
- Expand the access of blue-collar displaced workers to training, possibly by increasing JSCs resources either by raising employer contributions to TSL or by setting up a tripartite model whereby the central government also contributes to JSCs for blue-collar workers.
- Improve the quality of employment services provided by TSL providers for example by using a "star-rating system" to measure service quality.
- Strengthen the role of the public employment service (PES) to compliment the services provided by JSCs by: i) increasing expenditures on training programmes; ii) setting-up pilot programmes targeted at the training needs of disadvantaged displaced workers and those who exhaust JSCs services prior to finding jobs; and iii) introducing a systematic approach to the recognition, validation and certification of competences to identify displaced workers facing barriers in selling their skills.
- Further refine the profiling tool used in the PES to identify displaced workers in need of greatest support early on whilst minimising deadweight costs.

Providing adequate income support to all displaced workers

- Broaden unemployment insurance (UI) coverage to re-establish the legitimacy of the system and eliminate disparities in the provision of income support across different groups of workers.

Develop and implement a monitoring system that includes benefits that are not publicly provided to assess whether there are gaps in benefit coverage and adequacy for some groups of displaced workers and unemployed people more generally.