Back to Work

SWEDEN

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD

Back to Work: Sweden

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

OECD labour markets are characterised by their dynamism. Each year, more than 20% of jobs, on average, are created and/or destroyed, and around one-third of all workers are hired and/or separated from their employer. These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry. This reallocation is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers changing jobs, particularly workers who voluntarily quit one job in order to move to another. However, high job turnover is also a source of insecurity for workers, especially those who are displaced from their jobs because their employer downsizes its workforce or goes out of business altogether. A common challenge facing OECD governments is thus to nurture labour market dynamism while keeping the adjustment costs that are borne by displaced workers as low as possible.

To address this issue the OECD Employment, Labour and Social Affairs Committee is carrying out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. Nine countries participate in this review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

This report on Sweden was prepared by Elena Crivellaro and Shruti Singh (review leader), economists from the OECD Employment, Labour and Social Affairs Directorate, under the supervision of Christopher Prinz (project leader). Statistical assistance was provided by Sylvie Cimper and Agnès Puymoyen with editorial assistance by Gabriela Bejan and Marlène Mohier. Valuable comments were provided by Mark Keese, Stefano Scarpetta and Paul Swaim. The report benefited greatly from discussions with various Swedish experts, officials, employer federations, trade unions, academics and businesses during an OECD mission to Sweden in September 2014, and from detailed comments provided by several ministries and stakeholders.

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Acronyms and abbreviations

AGB	Lump-sum payment provided by TSL
AGE	Severance payment provided by TRR
ALMP	Active labour market programme
EGF	European Globalisation Adjustment Fund
EPL	Employment protection legislation
EU	European Union
EULFS	European Union Labour Force Survey
GDP	Gross domestic product
GFC	Global financial crisis (of 2008-09)
IFDB	Growth Analysis Individual and Firm Level Database
ILO	International Labour Organization
JSC(s)	Job Security Council(s)
LFS	Labour force survey
LIFO	Last-in-first-out
LMP	Labour Market Programme
LO	Swedish Trade Union Confederation – *Lands Organisationen*
NRR(s)	Net Replacement Rate(s)
OFR	Public Employees' Negotiation Council
PES	Public employment service – *Arbetsförmedlingen*
PTK	Federation of Salaried Employees in Industry and Services
RPL	Recognition of Prior Learning
Saco	Swedish Confederation of Professional Associations – *Sveriges Akademikers Centralorganisation*
SAF	Confederation of Swedish Enterprise – *Svenskt Näringsliv*
SEK	Swedish krona
SMEs	Small- and medium-sized enterprises
STW	Short-time work

TCO	Swedish Confederation of Professional Employees
TSL	Job Security Council for blue-collar workers – *Trygghetsfonden*
TSN	Job Security Foundation (Job Security Council for workers in the public sector) – *Trygghetsstiftelsen*
TRR	Job Security Council for white-collar workers – *Trygghetsrådet*
UI	Unemployment insurance
UIF	Unemployment Insurance Fund
USD	US dollars
WS	Work-sharing

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 polices 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.

Chapter 1

Job displacement in Sweden and its consequences

This chapter examines the prevalence and consequences of job displacement in Sweden. The risk of job displacement in Sweden does not appear to have increased during the past decade, and it is quite low in comparison to other OECD countries but some groups of workers are more vulnerable to displacement than others. Although re-employment rates of displaced workers are high in Sweden, the negative impact of displacement on wage, working arrangements and skills can be more long-lasting. The costs of being displaced vary widely and can be persistent for some groups.

OECD (2013a and 2013b) provide new evidence on the incidence and consequences of job displacement in OECD countries, confirming that all countries should evaluate their policies to cushion the income losses of displaced workers and assist them back into work. The evidence suggests that around 2%-7% of all employees in OECD countries, with at least one year of tenure on their jobs, involuntary lose their job loss each year due to economic factors, such as structural change and economic downturns. Once displaced, workers often experience large earnings losses while searching for a new job and significant wage cuts in their new job. This chapter analyses the extent of job displacement in Sweden and its consequences for the affected workers providing a starting point for the policy analysis in the following chapters.

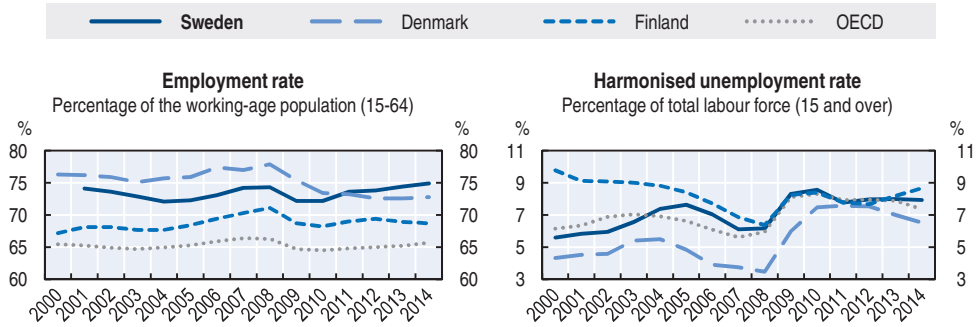
The Swedish labour market context

The labour market has shown considerable resilience

The Swedish economy and labour market have exhibited resilience in the face of the global financial and economic crisis (GFC), thanks mostly to strong macroeconomic policies and substantial structural reforms carried out since the early 1990s. Swedish employment rates have traditionally been one of the highest among OECD countries (Figure 1.1). After the employment shock during the onset of the crisis in 2009, employment has risen again, regaining, in 2014, its pre-recession level and being now higher than in other Scandinavian countries, such as Finland and Denmark. While the fall in employment during the crisis was moderate, Sweden's unemployment rate increased by almost three percentage points. Part of this increase has now been reabsorbed – to 7.9%, down from a peak of 8.6% in 2010 – but the unemployment level still remains high by Swedish standards. Policies aiming at strengthening work incentives have pushed up labour market participation in the past decade, particularly among low-income people and the elderly. Nevertheless, low-skilled people are less likely to be employed in Sweden than in many other OECD countries, in part because of strict labour regulations and high entry-level wages (OECD, 2015).

Swedish firms, at least in the past ten years, have been able to respond flexibly to changing labour market conditions. Available data suggest that labour turnover has been quite stable with a slight trend increase and some cyclicality (Figure 1.2). Between 1998 and 2012, hirings and separations have both ranged between 14% and 20% of total employment, with higher peaks in correspondence to the lowest unemployment rates. As other Nordic countries, Sweden has been successful in promoting flexibility by strongly supporting workers rather than jobs, thus quickly adapting to the demands of globalisation and technology change, while being able to protect workers who bear the brunt of economic restructuring (see Chapters 2 and 3).

Figure 1.1. **Labour market developments in Sweden in 2000-14 reflect those in other OECD countries**



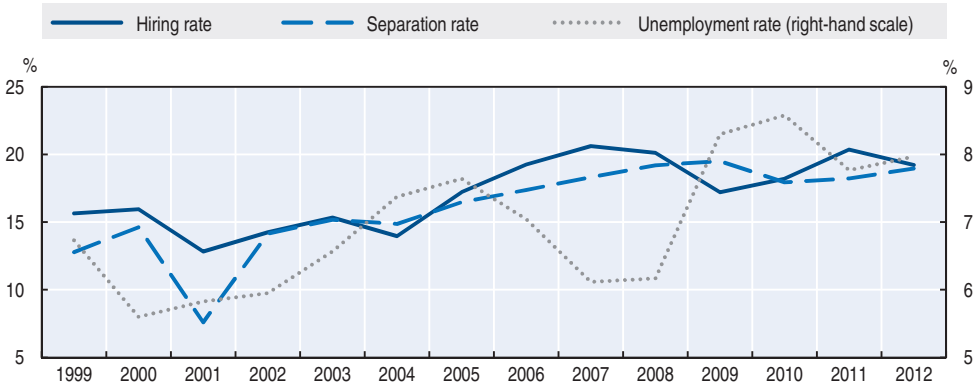
Note: For additional information on harmonised unemployment rates, see http://www.oecd.org/std/labour-stats/44743407.pdf.

Source: OECD (2014), "Harmonised unemployment rates (HUR)" (indicator), http://dx.doi.org/10.1787/52570002-en; and *OECD Online Employment Database*, www.oecd.org/employment/database for employment rates.

StatLink *http://dx.doi.org/10.1787/888933288701*

Figure 1.2. **Hirings and separations in Sweden move in line with the unemployment trend**

Annual worker flows as a percentage of employment



Source: OECD calculations based on European Union Labour Force Survey (EULFS) data for Sweden.

StatLink *http://dx.doi.org/10.1787/888933288714*

Displaced workers: Incidence and characteristics

Defining and measuring job displacement

The term *displaced worker* in this report refers to workers involuntarily separated from their job due to economic or technological reasons or as a result of a structural change – such as redundancies, permanent layoffs, business slowdowns, firm closures or mass dismissals (see Box 1.1. for further details on the definition of displacement in Sweden).[1] Following the methodology used in OECD (2013a and 2013b), the population group of interest consists of workers aged 20-64 with at least one year of tenure, who are employed in firms with ten or more employees.[2] The findings in this report are based on the Growth Analysis Individual and Firm Level Database (IFDB) for Sweden. This is a longitudinal, linked employer-employee database including all individuals, establishments and firms in the Swedish economy and covering the period 1986-2012.

Box 1.1. **Defining job displacement in Sweden**

The definition of job displacement used for Sweden in OECD (2013a and 2013b) slightly deviates from the harmonised definition: to avoid an over-estimation of displacements due to frequent changes in firm identification numbers, displacement rates in this report are based on establishments rather than firms (see below). Workers are classified as displaced if they have experienced a separation from an **establishment** between year *t-1* and year *t* (i.e. they were employed at the establishment in year *t-1* but not employed in year *t*) and the establishment involved has undergone any of the following two events:

- **Mass dismissal** – an establishment that has experienced an absolute reduction in employment of five employees or more and a relative reduction in employment of 30% or more between year *t-1* and year *t*.
- **Establishment closure** – an establishment that has terminated to operate between year *t-1* and year *t* (i.e. the identity number of the establishment appear in the data base in year *t-1* but do not appear in year *t*).

Calculating displacements based on the unit of firms instead of establishments can lead to a considerable overestimation of the true displacement rate, because of issues of false firm deaths or downsizing due to the inherent instability in the firm identity numbers. In Sweden, firms can easily change the identity numbers over time, and this is commonly done when there are merges, splits or acquisitions; however, this is not the case for establishments. Firm-level displacement rates in Sweden have been consistently higher. Over the observed 16-year period, the unweighted average percentage difference between firm level and establishment level displacement rates is more than two-thirds, 72% (including both mass dismissals and establishment closures).

The incidence of job displacement is low in Sweden

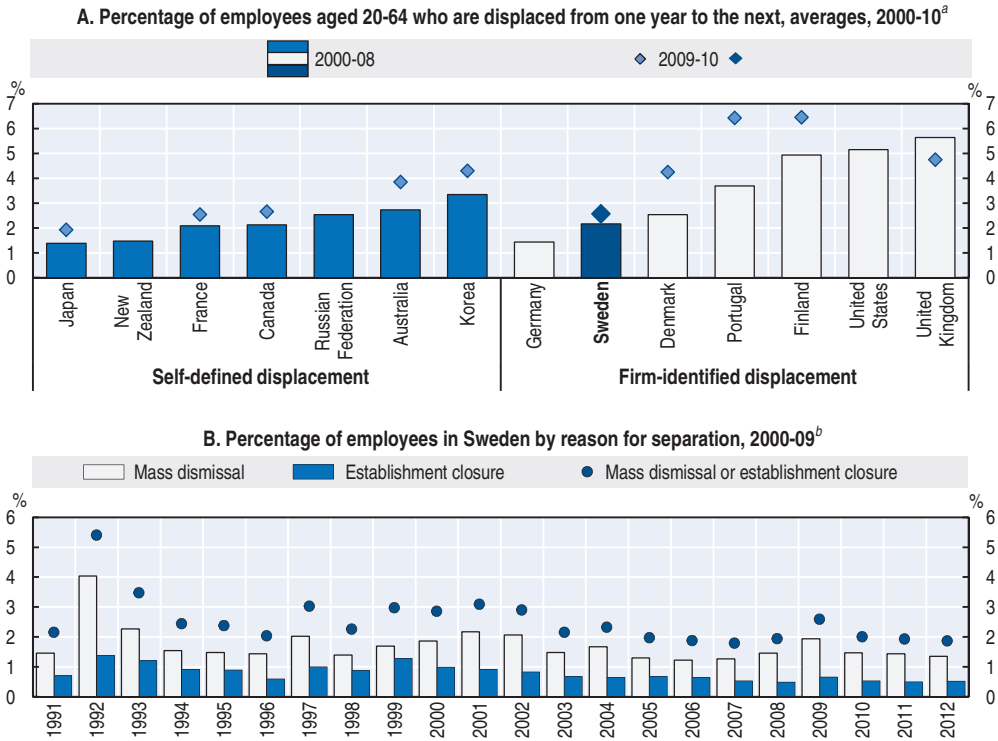
Figure 1.3 (Panel A) shows the risk of displacement in 13 countries for the period 2000-08 and 2009-10 based on either firm-level data (*firm-identified displacement*) or labour force surveys (*self-identified displacement*). The effect of the crisis is clear for both sets of countries (except for the United Kingdom) independently of the data source. Sweden shows a very low displacement rate both before and after the crisis, with an average of 2.3% for 2002-08, a peak of 2.6% in 2009 and an average of 1.9% for 2010-12, much lower than in Finland, for example, where the displacement rate was close to 5% before the crisis and higher than 6% after the recession.[3] Figure 1.3 (Panel B) shows the evolution in Sweden of the displacement rates due to mass dismissals and establishment closures. Both types of displacement appear counter cyclical, but mass layoffs are more frequent than establishment closures and they also appear to vary more strongly with the business cycle.

In Sweden, the displacement rate increased significantly in the recession of the early 1990s. The Swedish economy experienced a major crisis in 1991-92 originating from the process of financial liberalisation started in 1985.[4] The initial downturn in the economy was followed by a marked increase in the number of bankruptcies and unemployment which forced the economy into a deep depression that culminated in the autumn of 1992. This year corresponds with the historically highest-ever displacement rate in Sweden – a rate of 5.4%. But Sweden experienced a recovery during the years 1993-2000, evident from the sudden decrease in the displacement rate in 1993. Since then, the average displacement rate has remained low and stable.

Which workers face the highest risk of job displacement?

Worker displacement is not equally distributed. Some workers experience higher displacement rates than others. On average over the period 2000-09, men had a higher displacement rate (2.9%) than women (1.8%), and young adults aged 20-24 and 25-34 a much higher rate than older workers aged 55-64 (Figure 1.4). These differences, which are more pronounced among displacements due to mass dismissal than to establishment closures, may be driven in part by the Swedish *last-in-first-out* (LIFO) rule imposed on downsizing firms, which results in a higher risk of displacement for young workers (see Chapter 3). Educational differences seem to be small but displacement rates differ significantly across broad industrial sectors (being particularly high in finance, transport and construction) and occupations (mostly among managers, clerks, manual occupation including crafts and the skilled trades), and between the private and the public sectors (in the latter, displacement is near to non-existent). Multivariate analysis confirms these differences are statistically significant.[5]

Figure 1.3. **Workers in Sweden are displaced less often than workers in many other OECD countries**



a) *Displacement* is defined as dismissals for economic reasons or end of contract for workers with at least one year of job tenure. See OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-8-en for details on the definitions, samples and years used for each country.

b) Employees aged 20-64, excluding those working in public administration, with job tenure of one year or more.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf for Panel A; and OECD calculations using the *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) for Panel B.

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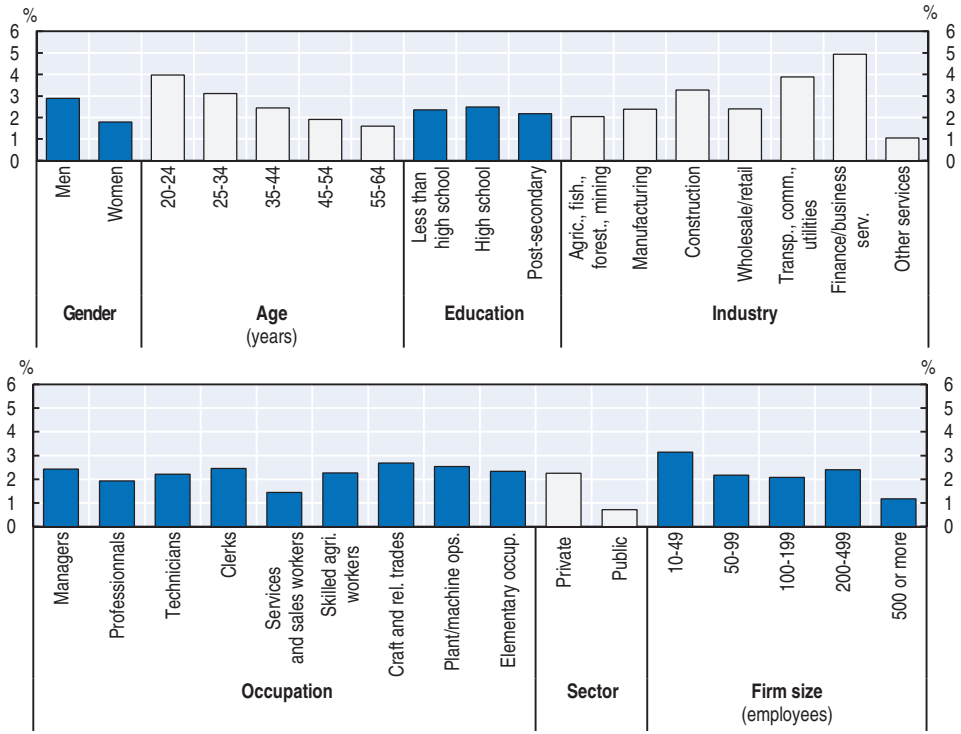
Figure 1.4. **Job displacement in Sweden is highest for young people in small firms in certain sectors of the economy**

Percentage of displaced workers, by personal and firm characteristics, average over the period 2000-09



Source: OECD calculations based on *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) data.

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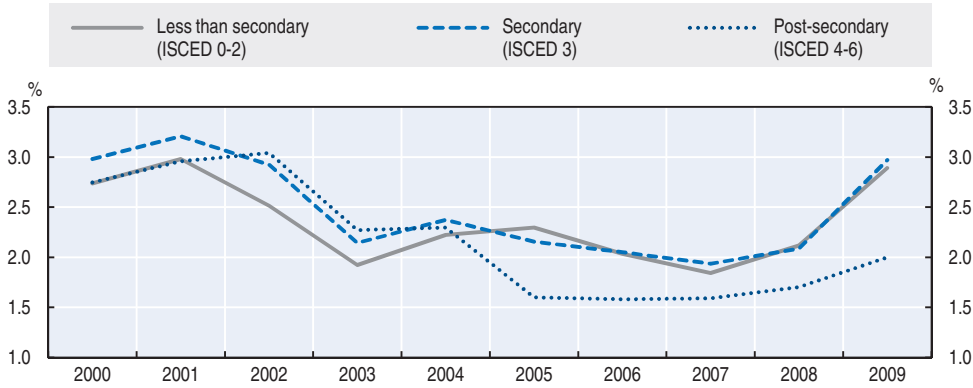
Interestingly, the evolution of displacement rates before and after the crisis hit Sweden differs for skilled and unskilled workers and for workers in some specific industries. Between 2000 and 2004, there were no differences in the displacement rates of skilled (post-secondary education) and less-skilled workers (secondary or lower than secondary). After 2007, however, the displacement rate for less-skilled workers has increased significantly (Figure 1.5). Similarly, before the crisis displacement rates were larger in finance and business services compared with other sectors; from 2008 onwards, however, displacement rates increased consistently in all sectors. A general conclusion therefore is that there are some differences

between the workers displaced during the economic downturn at the beginning of the 2000s and the ones displaced during the crisis. While at the beginning of 2000s, displaced workers were mainly highly educated workers in the financial sector and the ITC sector, the crisis hit both high and low educated workers hard in all sectors of the economy.[6]

Figure 1.5. **Displacement rate trends in Sweden differ by educational level**

Percentage of displaced workers, by educational attainment, 2000-09



Source: OECD calculations based on *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) data.

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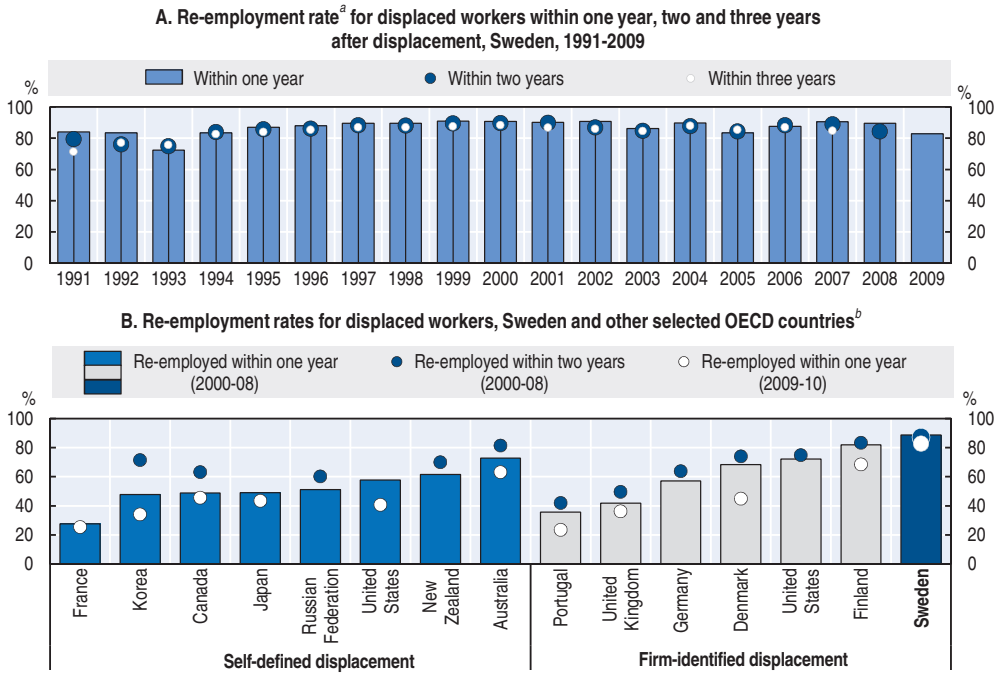
The chances of getting back into work

Many displaced workers in Sweden find a new job very quickly

Figure 1.6 (Panel A) shows the proportion of displaced workers in Sweden who were re-employed one, two and three years after displacement. Most displaced workers in Sweden find a new job quickly. On average, during the period 2000-09, 87% of displaced workers were re-employed within one year with no further increase in the following two years. Re-employment rates in Sweden are higher than those in any other OECD country for which comparable data are available (Panel B). Subsequent chapters of this report identify a number of reasons for the high re-employment rates in Sweden and the country's ability to flexibly re-allocate labour and manage restructuring.

Figure 1.6. **Re-employment rates of displaced workers in Sweden are very high**

Percentages



a) Re-employment can include employees, self-employed or employers. Re-employment rate within one year measures the percentage of workers displaced in year *t-1* who are employed in year *t*. Re-employment rate within two years measures the percentage of workers displaced in year *t-2* who find employment in year *t*.

b) Data for Germany refer to 2004 and for Canada to a 2000-08 average. There are no data on re-employment within two years for France, Japan or the United States. For Australia, Canada, France, Korea, New Zealand and the Russian Federation, data refer to workers who were displaced for economic reasons, due to the end of a temporary contract or for cause. For Denmark, Finland, Germany, Portugal, Sweden, the United Kingdom and the United States, data refer to workers who were displaced due to a mass dismissal or firm closure. For full details of the data sources and methodology, see OECD (2013a), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf. For Korea, the figures shown are slightly different from those used elsewhere in this report because they include dismissals for cause. This is to make the definitions as comparable as possible across countries.

Source: OECD calculations based on *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) data for Panel A; and OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-8-en for Panel B.

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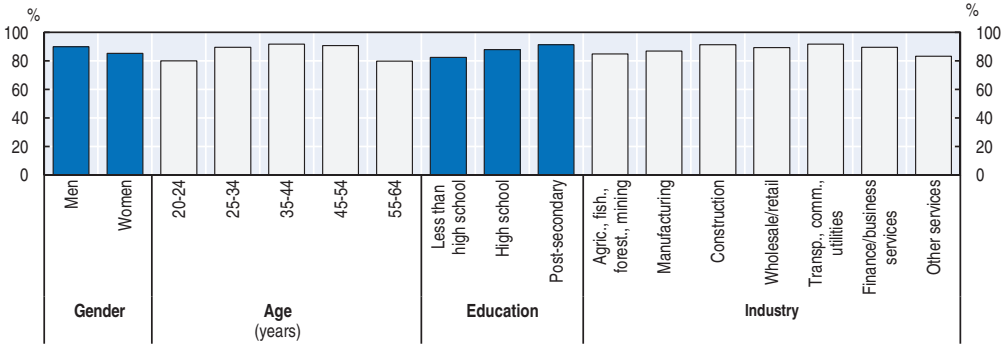
The probability of re-employment one year after displacement varies slightly across demographic groups. Men have higher re-employment rates than women (90% versus 85.2%) and both younger workers aged 20-24 and older workers aged 55-64 do worse than prime-age displaced workers. Re-employment prospects also increase with education. They are the highest for workers with post-secondary education and lowest for those with less-than-secondary education (Figure 1.7).

Figure 1.7. **Well-educated, prime-age men have the best re-employment chances**

Re-employment rates of displaced workers by characteristics, 2000-09, percentages



Source: OECD calculations based on *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) data.

StatLink http://dx.doi.org/10.1787/888933288761

Changes in wages and job characteristics after displacement

Most displaced workers find a new job within one or two years. However, the effect of displacement on their wage and working arrangements can be longer lasting.[7] This section investigates post-displacement losses: these costs are large for the affected workers but also for the economy.

Earning losses after displacement can be persistent

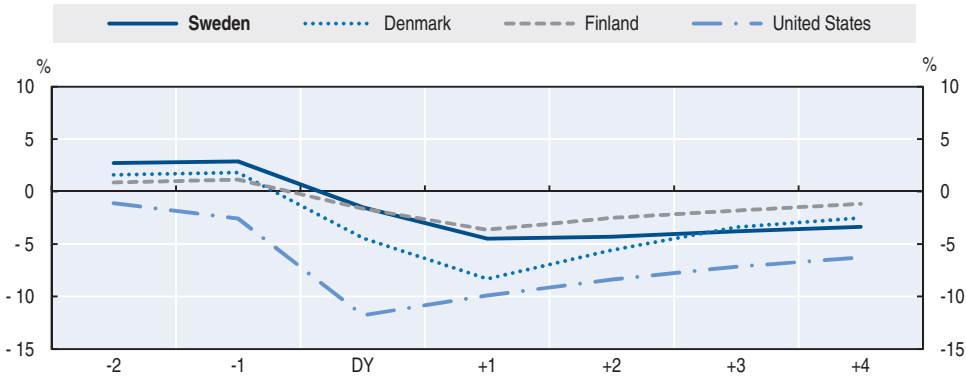
Displacement leads to considerable penalties in terms of forgone earnings for workers, not only in the transitory period of adjustment from one job to another, but also in the long run (OECD, 2013a). Evidence of the long-term effect of job displacement on earnings in Sweden is quite limited. By comparing displaced workers with a counterfactual case in which the displaced workers would not have been displaced, Eliason and Storrie (2006) find that "displacement leaves permanent – or at least long-lasting – scars,

even 12 years after the displacement, the gap in annual earnings was as large as SEK 6 717 (USD 869) and the unemployment and employment differentials were 3.7 and 3.2 percentage points, respectively".[8] They also show that the quick recovery in terms of employment and unemployment measures ended suddenly with the downturn of the early 1990s, suggesting that the impact of job loss is very sensitive to labour market conditions.

OECD (2013a and 2013b), provide estimates of real gross *annual earnings losses* in the years before and after displacement in a number of OECD countries, including Sweden using IFDB data.[9] In all countries examined, earnings fell significantly in the years following displacement; however, the size of the effect varies considerably across countries (Figure 1.8). Swedish workers experience a relatively small fall in earnings after displacement; average annual earnings fall by approximately 4-5% in the four years after displacement, much less than the 12% fall in the United States, for example. However, these smaller losses seem to be more persistent than in other countries, such as Denmark, where workers experience stronger losses initially but less long-lasting.

Figure 1.8. **Earnings losses after displacement are small in Sweden but also quite persistent**

Average annual earnings before and after displacement as a percentage of pre-displacement earnings



Note: DY: Displacement year. Pre-displacement earnings refer to average earnings in the year prior to displacement (-1 in the figure).

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf; and OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

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Figure 1.9 compares earnings and wage losses after displacement across demographic groups.[10] The adjustment experience of displaced workers can be very diverse. Swedish men tend to suffer greater earnings losses than women after displacement, despite the fact that women can have more difficulties than men in re-entering work after displacement (Panel A). The gender difference is caused by larger wage losses for men than for women (Panel B). Also older workers tend to experience significant earnings losses while younger workers (aged 25-29) see their earnings increase (by around 2%) after displacement. The earnings losses for older workers (aged 45 or more) are considerable (8% lower than pre-displacement earnings) and persistent (Panel A). These age differentials are largely driven by corresponding wage losses (Panel B). Consequently, restructuring may actually create improved career and earnings opportunities for those displaced workers who find employment quickly, especially young workers.

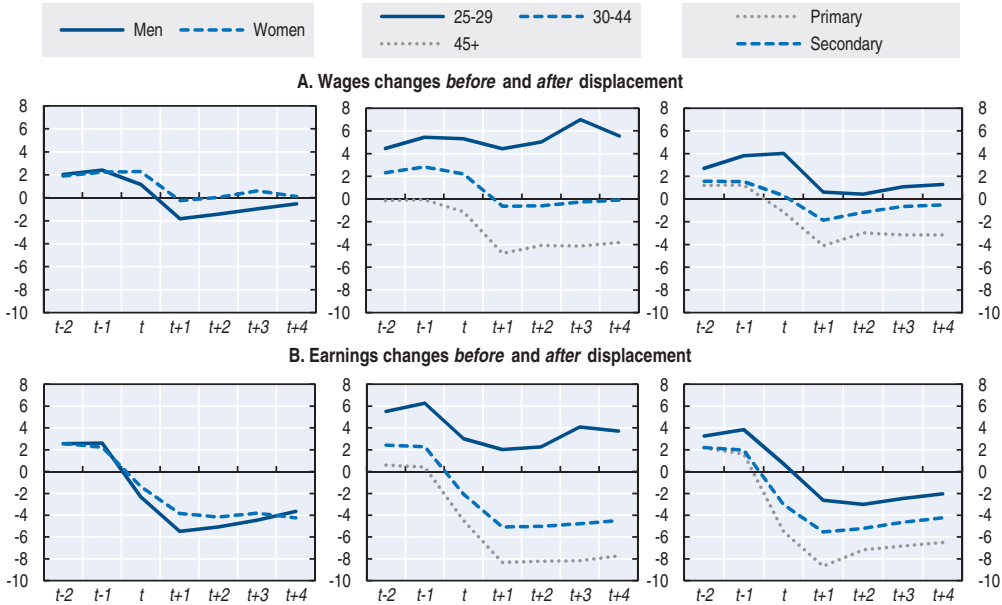
Education is another crucial characteristic behind differences in earnings and wage losses. Displaced workers with less than secondary education suffer from the largest earnings losses and wage cuts. These findings are in line with earlier research (Neal, 1995; and Podgursky and Swaim, 1987): high-skilled retrenched workers recover faster due to their ability to re-accumulate job-specific skills. The persistence of earnings and wage losses for some groups of displaced workers in Sweden despite overall high re-employment rates suggests that policy needs to put more attention to these groups to avoid long-term unemployment and long-term labour market disadvantage.

Displacement can also affect health status

A large body of literature has established that displaced workers also face significant non-wage costs. Job loss in general is found to severely affect health and wellbeing as it is an involuntary disruptive life event with a broad impact on workers' life courses.[11] Job separation implicates financial and psychosocial stress and a loss of social networks; leading to direct health consequences and to subsequent adverse life events and non-constructive coping strategies or risky behaviour (such as less exercise, or increased tobacco and alcohol consumption).[12] For Sweden, Eliason and Storrie (2009a) find a higher overall mortality risk for male displaced workers, in the first four years after plant closure, due to a twofold increase in suicides and alcohol-related deaths. Similarly, Eliason and Storrie (2009b) show that job loss significantly increases the risk of hospitalisation due to alcohol-related conditions and to traffic accidents and self-harm. Finally, according to Eliason and Storrie (2010), job loss significantly increases the risk of overall inpatient psychiatric hospital admission for women.

Figure 1.9. **Wage losses after displacement in Sweden are highest for older workers and those with low education**

Annual earnings and annual wages *before* and *after* displacement as a percentage of pre-displacement earnings and wages, by demographic characteristics



Note: t: Displacement year. Pre-displacement earnings are the average earnings in the year prior to displacement (*t-1* in the figure). Earnings effects are calculated for all displaced workers who have non-zero earnings in at least one year after displacement. Wage effects are calculated for displaced workers who have non-zero monthly earnings in every year after displacement. Data refer to annual earnings. *Low*: Less than secondary education; *Medium*: Secondary education; *High*: Post-secondary education.

Source: OECD calculations based on *Individual and Firm Level Data Base at Growth Analysis* (IFDB – a Swedish linked employer-employee database) data.

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How is skill use affected by job displacement?

Wage losses after displacement can be attributed to the loss of industry-specific or occupation-specific human capital. This is usually argued on the basis of evidence that displaced workers who switch industry and/or occupation suffer greater losses than those who do not. This section, following the methodology used in OECD (2013a), investigates actual changes in skill use following displacement which could explain some of the earnings losses experienced by displaced workers and provide a case for addressing the training needs of these workers.[13]

Industry and occupational changes and changes in skill requirements

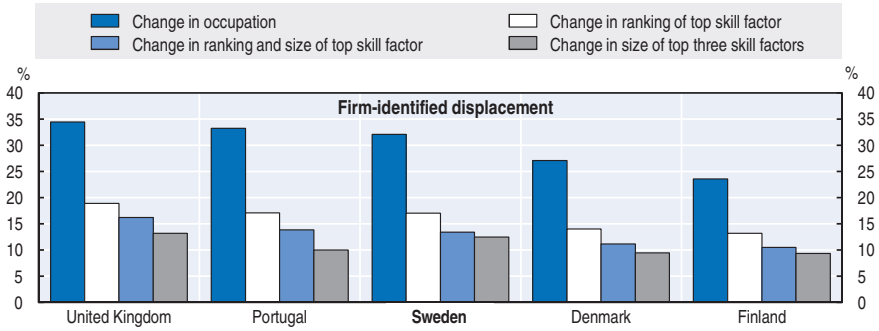
Displaced workers generally differ quite remarkably from the average employee relating to the skills they use in their pre-displacement job (OECD 2013a, and 2013b). This is also true in Sweden where, particularly during the first half of the 2000s, displacement affected mostly white-collar employees in well-paid jobs with high education requirements. In line with this, Seim (2012) found that individuals with higher cognitive and non-cognitive skills are more likely to be displaced in Sweden.

Numerous studies report that wage losses are greater among displaced workers who switch industries following displacement (see for example, Topel, 1990, and Neal, 1995). Among Swedish displaced workers, many find a new job in another industry and/or occupation (Figure 1.10).[14] Between 2000 and 2009, one in three Swedish displaced workers changed occupation, slightly more than in the other Nordic countries (27% in Denmark and 24% in Finland). This high frequency of occupational changes would indicate extensive skill losses following displacement if human capital was considered completely occupation specific, but the same skills can be useful in a range of occupations. Figure 1.9 also shows three alternative measures of skills switching, based on changes in the ranking of key skills required as well as changes in the intensity with which key skills are required.[15] These measures show that only a small proportion (between 12% and 17%) of displaced workers move to occupations with very different skill requirements. Accordingly, not all workers switching to a new industry or occupation necessarily require substantial training.

Moreover, a skill switch does not necessarily imply a negative outcome. Some displaced workers move to jobs with higher skills requirements than those from which they were displaced when re-employed in a new occupation. Figure 1.11 shows the share of re-employed displaced employees who experience a skill switch accompanied by a fall in required years of education of at least one year – identified as professional downgrading – or a skill switch accompanied by an increase in required years of education of at least one year – interpreted as professional upgrading.[16] In Sweden, almost 5% of workers experience professional downgrading – this is the highest share among OECD countries for which comparable measures of job displacement and professional downgrading are available. Slightly fewer displaced Swedish workers experience professional upgrading, 3.5%. Overall, only a small proportion of Swedish displaced workers suffer sizable human capital losses, but for them the losses are often considerable and long-lasting.

Figure 1.10. **Changes in skill use are less frequent after displacement than changes in occupation**

Percentage of displaced workers who change occupation and skills set, 2000-10



Note: Data for Sweden refer to the period 2000-09.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf; and OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

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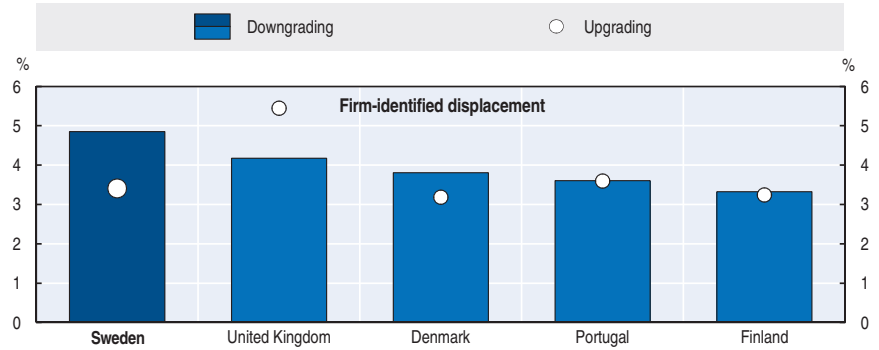
Figure 1.11. **Professional downgrading is roughly as frequent in Sweden as professional upgrading, as it is in other countries**

Incidence of professional upgrading and downgrading following displacement, 2000-10



Note: Professional downgrading is defined as a skill switch [based on switch measure 2, see OECD (2013b)] accompanied by a fall in required years of education of at least one year. Professional upgrading is defined as a skill switch accompanied by an increase in required years of education of at least one year.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

StatLink http://dx.doi.org/10.1787/888933288800

Conclusions

Compared with most OECD countries, the Swedish labour market has performed quite well in recent years and showed considerable resilience during the 2008-09 global financial crisis. Employment grew at healthy rates despite the sluggish labour market recovery in many other OECD countries. However, the decline in unemployment from its crisis-induced peak has been slow. A high degree of labour force participation underpins a high level of social inclusion and allows for a well-developed welfare system to be financed for those outside the labour market.

A continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry, is a feature of a well-functioning market economy and helps reallocating resources to more productive activities, contributing to dynamism and growth. Historically, these workers' flows have been quite high in Sweden and have increased due to both the financial crisis and the increasing speed of globalisation. The negative impact of displacement can be either short or long-lasting and some groups may suffer more than others. Facilitating the reallocation of workers after displacement is crucial in order for the beneficial effects from labour mobility on growth and productivity increase to be most efficiently captured.

In Sweden, displacement rates have been quite low in comparison to other OECD countries (around 2%), and there is no indication that displacement rates have risen over the past decade. However, the risk of job displacement increases when economic conditions deteriorate and varies substantially according to individual characteristics of workers and their firms. The differences should be taken into consideration when setting policies to facilitate labour mobility and help displaced workers into employment. Displacement rates in Sweden are highest for men, young and low-skilled workers. However, almost 90% of the displaced workers in Sweden find a new job within a year, more than in a number of other comparable OECD countries.

Job displacement brings the risk of subsequent unemployment and considerable and long-term economic and non-economic consequences for the affected workers, their families and communities. Income support and re-employment services for displaced workers are important to minimise the personal costs of displacement. While the large majority of Swedish displaced workers manage to find a job quickly, on average, they have lower wages than in the previous job. Earnings (and wage) losses appear to be quite persistent for older and low-skilled displaced workers. In addition, a small share of displaced workers are likely to be professionally downgraded, implying sizeable and long-lasting human capital losses. This makes it crucial for policy to provide adequate services to help this group quickly find a job that matches their skills. Better matches between displaced workers' skills and the requirements of available jobs have to be achieved, particularly for low-skilled workers.

Notes

1. In OECD (2013a and 2013b), displaced workers have been defined in two ways according to the type of data available: firm-identified displacement in countries where the data used came from employers and no information was available concerning the reasons for each individual separation, and self-defined displacement in countries where the data used came for workers and contained retrospective questions about displacement. Workers are defined displaced if they are employed one year, and either not employed or employed in a different job in the following year and the reason for separation is either self-defined or firm-defined displacement.
2. Employers, the self-employed and unpaid family workers are excluded from the analysis, as are workers in the public administration, defence, community, social and personal service activities and extra-territorial organisations. Short-tenure and young workers are excluded to allow the analysis to focus more sharply on workers with some degree of job stability, by better differentiating between displaced workers and workers facing chronic instability in the labour market. Displacement is considered as displacement from the main job – i.e. the one for which the worker has received the highest total earnings in November each year.
3. If firm-size data were used for Sweden, without correcting for changes in firm's identifiers, the rate of displacement would be around 3.6%.
4. Finland and Sweden were hit simultaneously by a severe crisis in the early 1990s. The trigger has been the same for both countries: financial deregulation. This firstly contributed to rapid growth in the volume of credit and thus to a boom at the end of the 1980s, but ended in a deep crisis after the credit expansion was broken.
5. These are results from a probit model estimating the probability of being displaced on a sample of employees with at least one year of tenure aged 25-54 using IFDB data (2000-09). Results are available upon request.
6. Results show that for the period 2000-09 the likelihood of displacement is higher for those with post-secondary education than for those with less than secondary and secondary education, particularly during the 2000-02 and 2003-07 sub-periods. The probit results also indicate that the likelihood of displacement is relatively high in the mentioned finance and business services sector
7. Due to data limitations, losses in working arrangements and job quality in general are not discussed in this chapter.
8. Differently from much of the literature on job displacement that follows the fixed-effect approach introduced by the seminal paper by Jacobson et al. (1993), Eliason and Storrie (2006) use propensity score matching methods to create a comparison group representing the counterfactual case in which the displaced workers would not lost their jobs.

9. Measuring annual earnings losses include losses not only due to lower wage rates, shorter hours but also due to periods of non-employment in which the displaced worker had no earnings. Earnings losses include period of non-employment/earnings in order to assess the full financial cost of displacement. Earnings losses due to non-employment may be offset, to some extent, by the receipt of unemployment benefits or other forms of social assistance.
10. Wage effects are calculated for workers with non-zero earnings in each year after displacement, thus allow estimating how much of the earnings losses are due to non-employment and to lower wages in post-displacement jobs. It should be kept in mind that wage effects are calculated only for workers who return to work quickly after displacement. It is plausible to assume that workers who have long periods out of work may suffer from larger wage losses when they do return to work.
11. Displacement can lead to higher incidence of informal and temporary jobs and self-employment resulting in higher job insecurity, with large attendant psychological costs in lower levels of happiness and higher levels of depression.
12. Another strand of the literature is suggesting deleterious effects of displacements on marital dissolution (Charles and Stephens, 2004) and on children's educational attainment (Kalil and Wightman, 2011).
13. Poletaev and Robinson (2008) find that wage losses following displacement in the United States are more closely associated with switching skill portfolios than switching industry or occupation per se.
14. Due to the rotating sample schedule for the Swedish occupation statistics, the reported occupation may not be updated to refer neither to the year nor to the main job hold in that particular year. This issue may lead to an underestimation of the actual occupation changes and, as a consequence, an underestimation of the skills switches experienced by Swedish displaced workers.
15. As explained in OECD (2013b), the measures of skills switching presented in Figure 1.10 are based on the ranking and changes in value of mathematics, verbal, cognitive, craft, interpersonal, gross physical and fine physical skills requirements. One way to disentangle between downgrading and upgrading skill switches is to measure the level of education required in their previous job, as well as their post-displacement job. A positive change in the number of years of education required between both jobs (of at least one year) is a signal that the person has moved up to a higher-level job while a negative change in required education points to a move down the career ladder.
16. The underlying assumption used here is that an increase in required education is a signal that the person has moved up the career ladder while a negative change implies a move to a lower-level job (see OECD, 2013a and 2013b).

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Chapter 2

Key actors and institutions involved in managing displacement in Sweden

This chapter provides an overview of the main authorities and institutions in Sweden in charge of the design and implementation of employment policies dealing with displaced workers and the main interaction between the key stakeholders. It presents the institutions involved in the restructuring process, focusing on the marginal role of the government as opposed to the leading role of the social partners and collective agreements.

The Swedish Government plays a prominent role in labour market policy in general: employment protection legislation is relatively extensive, and the social security system is well developed. However, this role becomes more limited in the context of job displacement as there is a longstanding tradition of collaboration between the social partners to complement responsibility for restructuring, which has resulted in special arrangements and practices for dealing with workers affected by economic restructuring and change. In particular, the so-called *Job Security Councils* (JSCs), which are agreed upon through collective agreements, have an important role in providing support both to employers and displaced employees in the event of restructuring. In view of the high re-employment rates and the limited income losses experienced by displaced workers, as seen in the previous chapter, this dual system seems to work well. However, a range of inequalities in the system which are addressed in detail in subsequent chapters, a new balance might have to 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. This chapter discusses the division of responsibilities between the government and the social partners, and the main issues arising from this institutional setup.

The Swedish Government has a limited role in restructuring

Since 1970, with the introduction of employment protection legislation, the government has been playing an important role in labour market policy in general in Sweden. However, unlike many other European countries, it plays a relatively marginal part in helping displaced workers find new jobs partly due to the strong presence of the social partners.[1] The role of the government is limited to the provision of a sound social security system, rather than offering efficient re-employment support, although some interesting initiatives more focused towards displaced workers were introduced in response to the global financial crisis.

The public employment service is the main government actor in labour market policies

The Swedish public employment service (PES) is the main government actor in labour market policy. It is a national authority which operates under the Ministry of Employment and directs, co-ordinates and develops labour market policy in Sweden, using and allocating government funds. The national government has overarching responsibility for employment and overall labour market policy but the PES puts most of these policies into practice.[2] The main task of the PES is to facilitate the matching between jobseekers and employers and to prioritise support to particularly vulnerable people who are far from the labour market, enabling them to apply for and fill available vacancies. The PES is also responsible for ensuring that unemployment insurance acts as adjustment insurance.

Active labour market programmes have traditionally been a central pillar of the Swedish model, with the PES playing an important role in alleviating the negative consequences of economic restructuring by providing support to dismissed workers. However, the role of the PES has been reshaped over time, being mostly substituted by a growing number of JSCs that are in charge of providing re-employment assistance to dismissed employees (see Chapter 4).[3] Since the inception of JSCs first in the early 1990s, displaced workers lost their status as one of the main target groups of the PES and nowadays its activities are largely targeted towards particularly vulnerable groups such as immigrants, disabled and the long-term unemployed. However, when the PES receives a notice of a large-scale dismissal, it can still play an active role, for example, with the possibility of setting up an "employment exchange office" at the affected workplace (see Chapter 3 for more details).

Other government departments play a smaller but complementary role

Other government authorities also deal with the issue of job displacement and restructuring, in different ways. The Ministry of Enterprise and Innovation is responsible for job creation policies such as financing businesses and for nominating regional co-ordinators that are responsible for addressing regional development issues (see below). The Ministry of Enterprise and Innovation played an important role in the financial crisis of 2008-09, planning many measures to boost demand and supply through business development plans, financial support and labour market infrastructure (see Box 2.1 for an example of the special measures introduced in the context of the automotive industry). The Ministry of Education and Research is responsible for training programmes within the regular education system for workers who lost their job for economic reasons and other unemployed people. Finally, the Ministry of Health and Social Affairs is in charge of social assistance, the ultimate safety net in the Swedish social welfare system.

Box 2.1. **Special measures for the automotive industry**

The economic downturn in late 2008 hit the automotive industry hard and Sweden was no exception. Due to the important role of the automotive industry in the Swedish economy, the Swedish Government, mainly through the Ministry of Enterprise and Growth, undertook a number of special measures aimed at supporting the companies involved in the crisis.

The *Support package programme* for the automotive industry consisted of three sets of measures mostly directed to R&D projects rather than to directly protecting employment and intended as preventive actions and supportive measures to avoid bankruptcy and to keep competitiveness high. In particular, these actions consisted in:

1. State guarantees for loans from the European Investment Bank.
2. Support loans to suppliers/manufacturers, the so-called "restructuring loans".
3. Establishing finance companies (investors) to invest in automotive industry.

All loans and their usage must follow EU rules. Due to the numerous requirements that these applications had to fulfil, it has been quite difficult for the companies to apply, leaving some of the allocated resources unused.

At the same time, another loan programme targeted on small- and medium-sized enterprises (SMEs) had a very positive (indirect) effect on the automotive industry. During the second half of 2008, the Swedish Development Bank (ALMI) was tasked to take steps to improve access of SMEs to loans and credits, rather than just providing guarantees for bank loans. To some extent, this can be seen as a type of guarantee, as ALMI loans are co-financed by private banks (see OECD, 2010 and 2014).

Source: Information acquired during the OECD mission to Sweden in September 2014.

Municipalities and regional governments are also critical

In Sweden, regional governments and municipalities are long-standing labour market actors in so far as they provide social services within the framework of the Swedish Local Government Act (2004). Each of Sweden's 21 counties has a county administrative board which functions as a link between national and local agencies. The county board is responsible for, among other things, some social welfare matters, regional planning and support to the business sector.[4] Regional and local authorities are central actors in the co-ordination of strategies dealing with both the anticipation of structural change in the economy and the support to displaced workers. Regional authorities usually become involved in an advisory or funding capacity, particularly in cases where an establishment is a major employer in a particular area. They are supposed to be competent to identify business slowdown, to which they can respond quickly with appropriate local and

social investment policies and infrastructures. The regional and local authorities should anticipate and intervene in the restructuring process, thus they need to be informed as early as possible of displacements and of any envisaged changes in the organisation of firms. Moreover, with the support of national government funding, the European Social Fund or the European Globalisation Adjustment Fund, and the creation of a regional co-ordinator during the crisis (see below), the authorities can also undertake much stronger supporting role. In 2010 actors with regional growth responsibilities was mandated by the government to establish regional skill platforms to increase the collaboration between regional growth policy, employment policy and education policy in the short and long term. The regional skill platforms aim to provide better matches in the regional labour market by, inter alia, contributing to better forecasts of skills provision and educational.

Recently, the government has introduced new measures to help displaced workers

Over the past decade, Sweden has consistently proven to have a strong capacity to adapt its governance structures and local welfare system to new challenges. With the onset of the crisis, the government has started to directly deal with dismissed workers and the consequences of economic transformation. An important initiative, which was introduced in 2012 through an agreement with the social partners, is the short-time work (STW) scheme with the aim of preserve jobs that are viable in the medium term without preventing necessary structural change (for more details see Chapter 3).

In order to strengthen regional co-ordination, Sweden also appointed "regional co-ordinators" in the regions of Norrbotten and Gävleborg, and then later extended it to all counties when the crisis hit Sweden in 2008. The aim is to facilitate and strengthen the co-ordination of local, regional and national actors, policies and resources, at a scale that was considered by national policy makers crucial to deal with the crisis. The regional co-ordinators are the county governors and the political leaders of the county councils or regional co-operation bodies. Their task is to co-ordinate initiatives and measures in response to the crisis, report regularly to the government on their county's situation and identify the need for government intervention (OECD, 2010). The work initiated by the regional co-ordinators has also shown that established regional partnerships and long-term strategies have been crucial to speed up decision making in a restructuring context at a time of crisis when supporting the business sector became even more compelling.

The Swedish social partners are the key actors in case of displacement

The social partners considerably influence labour market and social policy in Sweden and help to negotiate, design and implement support packages for the workforce. A distinctive feature of the Swedish model is the relevance of collective bargaining between employers and trade unions and the presence of JSCs which provide transition services and re-employment support to dismissed workers (see Chapter 4). Understanding the role of the social partners and the structure of collective agreements is decisive to understand the restructuring process in Sweden. The dominance of Sweden's well-developed collective bargaining system puts a lot of responsibility on the social partners, who have to strike the right balance between promoting labour market flexibility and protecting workers.

Trade unions accept the need for restructuring, rationalisation and technological change

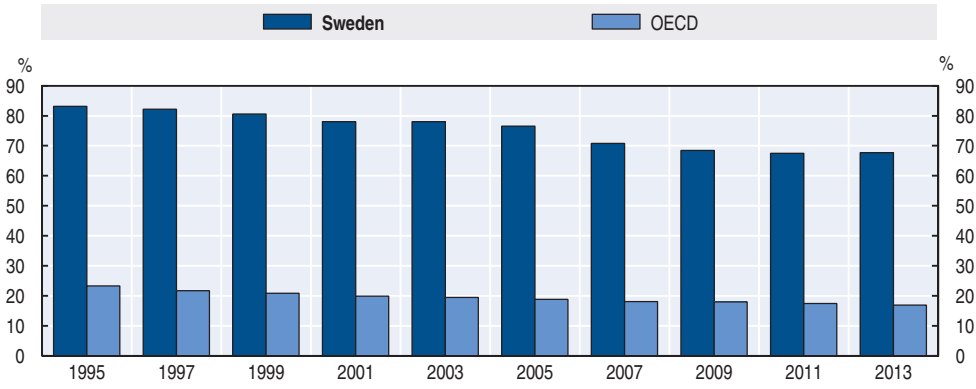
More so than in other OECD countries, trade unions in Sweden accept economic change and the subsequent job losses that come with it. This leads to a more pro-active approach in anticipating and managing structural change. Traditionally, trade unions play an active role, both in general labour market policies and in the restructuring process.[5] They take an active part in the decision about whether to implement collective dismissals or to seek alternative strategies. Through the Co-determination Act of 1976, employers are bound by collective agreements to inform the unions about any important change or restructuring plan in order to initiate a formal discussion.[6] A decision regarding redundancy cannot be taken before completion of these negotiations (see Chapter 3). Perhaps the biggest contribution of social partners is the development of JSCs that provide comprehensive employment support to displaced workers during the notice period (see below).

Overall, trade unions have maintained a strong presence in labour market policy even though there is some evidence suggesting that they have been losing ground recently (Figure 2.1). In 2013, only two in three employees (both white and blue-collar workers) were covered by unions, down from the peak level of 86% in 1995, and almost 90% of employers were members of an employer association. Union membership declined sharply during 2007 and 2008 due to the significant increase in membership fees for Unemployment Insurance Funds. In a country with state-supported union-run unemployment insurance funds as in Sweden, i.e. a so-called *Ghent system*, a raise in the fund fee automatically results in a corresponding increase of the total union fee as the union membership and entitlement to unemployment funds are highly correlated (see Chapter 5 for details). In the course of only two years, union density dropped by six percentage points, to 71%.

The unions lost 245 000 members and their union unemployment funds even 399 000 members. Both blue-collar and white-collar unions experienced severe losses, although there were significant differences between individual unions and between union confederations. According to Kjellberg (2011), about two-thirds of the drop in membership in 2007 and 2008 could be attributed to the remodelled system of financing Swedish unemployment insurance (see Chapter 5 for further details). During the global financial crisis (GFC), together with the loss in coverage rates, trade unions have lost part of their role. Unions, as in most other OECD countries, have now less influence in socio-economic decision-making due to the generally declining capacity to steer national economies (Roosblad, 2013). As a result, they are more prone to accept wage cuts and the use of STW schemes (see Chapter 3).

Figure 2.1. **Trade union density has been gradually falling but remains very high**

Percentage of workers who are members of a trade union,
Sweden in comparison with the OECD as a whole, 1995-2013



Source: OECD Trade Unions Dataset, a subset of the *OECD Online Employment Database*, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm#union.

StatLink http://dx.doi.org/10.1787/888933288812

Collective agreements regulate the labour market

Collective agreements regulate salaries and working conditions for more than 90% of employees in Sweden.[7] The relatively high union membership rate, both among employees and employers, provides collective agreements with the necessary legitimacy to be functional. All negotiations regulating working lives are generally made through collective agreements (see Box 2.2 for an overview of the bargaining process in Sweden). Collective bargaining takes place at three levels: national agreements, national industry-specific agreements and local agreements (Ahlberg and Bruun, 2005). There are

two specific collective agreements regulating the conditions for restructuring: *company-specific local agreements* and general *industry or occupational agreements*. An employer covered by a collective agreement must apply the agreement for all employees, including those who are not members of the trade union who has signed the agreement.

Company-specific local agreements are agreements signed directly by the company and its trade unions mainly regarding restructuring; they typically include provisions for selecting workers for dismissals which deviate from the standard *last-in-first-out* seniority rule. Under these agreements, discussions are held on the length of dismissal periods and transition packages, including job-search training, counselling and other activities to support workers in transferring to other jobs. Most large companies will provide very generous services to laid-off workers in order to overcome the seniority rule. More general collective agreements also exist; these concern restructuring in certain industries or sectors or for special groups of workers, for example white-collar or blue-collar workers. These agreements are called *restructuring agreements* or *job security agreements* and most often regulate the establishment of a Job Security Council, a special legal entity referred to as a Collective Agreement Foundation. The restructuring agreements stipulate that employers should pay a yearly fee to provide transition services for workers who are dismissed and are members of the relevant employers' association.

Box 2.2. **Trade union confederations and negotiation councils in Sweden**

Commonly, the number of trade unions has been small and wage negotiations and wage settings have mainly been centralised. There are three main trade union confederations, namely:

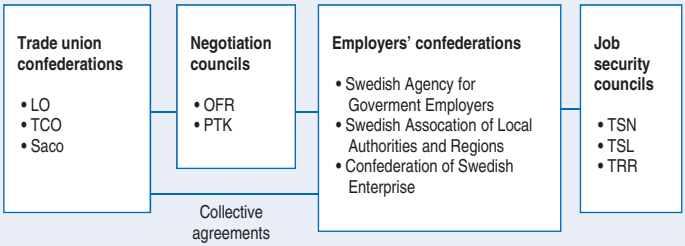
- **LO** (Trade Union Confederation) – the biggest trade union confederation that covers mainly blue-collar workers.
- **TCO** (the Swedish Confederation of Professional Employees) – it covers professionals and most white-collar workers.
- **Saco** (the Swedish Confederation of Professional Associations) – it brings together unions organising civil servants and professional employees.

Only few trade union confederations make collective agreements with the employer's confederations, in addition to centralising the majority of wage negotiations and wage settings. Collective agreements are made through two main negotiation councils, namely the *Federation of Salaried Employees in Industry and Services* (PTK) and the *Public Employees' Negotiation Council* (OFR). These councils play an important role in collective bargaining at branch/sector level.

Box 2.2. **Trade union confederations and negotiation councils in Sweden** *(cont.)*

The social partners in Sweden

PTK negotiates with the Confederation of Swedish Enterprise on pensions and unemployment insurance, comprising 27 national unions from the TCO and Saco and representing 700 000 employees. On the other hand, 14 national unions in the public sector have joined together in the OFR, which is a collaborative body, a forum for dialogue and co-operation where the unions consult and co-operate with each other on common bargaining issues. The unions represent some 560 000 central and local government employees. OFR is formed by unions from both Saco and the TCO.



Note: There are approximately ten more JSCs in Sweden. TSN, TSL and TRR are the main ones.

Source: Information provided during the OECD fact-finding mission to Sweden in September 2014; and Bergström, O. (2014), "Managing restructuring in Sweden – Innovation and learning after the financial crisis", *IRENE Policy Paper*, No. 12/2014, Innovative Restructuring- European Network of Experts, http://responsible-restructuring.eu/wp-content/uploads/2014/10/Irene-Policy-paper-No-12-Sweden.pdf.

Job Security Councils, a distinctive feature of the Swedish restructuring process

Job Security Councils (JSCs) are a unique feature of Swedish labour market policy not known in any other OECD country. Based on collective agreements between social partners in an industry or sector and financed by corresponding employers, JSCs are the most relevant institution supporting economic and labour market transitions as they are the first actor approaching displaced workers. Their primary aim is to provide the shortest path to work based on individual's circumstances and needs and in addition, in most cases, to act as a financial safety net.

The first JSCs originate from 1972 and 1974 in response to the deteriorating economic conditions in Sweden in the late 1960s which lead to a significant loss of white-collar jobs in the wake of the oil crisis in 1973 (Bergström and Diedrich, 2008). Back then, employers were unsatisfied with the services provided by the PES to white-collar workers, which is why

the social partners agreed on establishing a particular organisation specifically providing services to this group of workers. Over time similar organisations have been established in most segments of the labour market and eventually, since 2004, thanks to the conclusion of a Job Security Agreement between the Confederation of Swedish Enterprise (SAF) and LO, also blue-collar workers are covered by such agreements.

There are different JSCs with different target groups and varying needs. Table 2.1 summarises information on the four largest JSCs. Almost 80% of the Swedish labour force (5.2 million people) is covered by such agreements.[8] In Sweden, there are at least ten JSCs, but three of them cover the bulk of the labour force: TRR for white-collar workers, TSL for blue-collar workers and TSN for public employees.

Table 2.1. **Job Security Councils in Sweden: Who and how many do they cover?**

Council	Coverage	Professions	Companies
Job Security Foundation (TSN *Trygghetsstiftelsen*)	250 000 government employees	All government employees from administrators to military staff and post-doctoral graduates.	250 authorities
Transition Fund (*Omställningsfonden*)	1.1 million employees within local authorities and regions	All employees within local authorities and regions, for instance teachers, medical staff, etc.	290 local authorities, 20 regions, 600 companies
TSL Employment Security Fund	900 000 employees in the private blue-collar sector	Blue-collar workers in the engineering industry, retail, construction, etc.	100 000 companies
TRR *Trygghetsrådet*	850 000 employees in the private white-collar sector	White-collar workers within the whole private sector	32 000 companies

Note: This table provides details about the four biggest Job Security Councils for private and public sector workers.

Source: Trygghetsstiftelsen (2014), Presentation by Caroline Söder during the OECD fact-finding mission to Sweden in September 2014.

TRR – The JSC for white-collar workers

TRR's history can be traced back to 1973. It was the first JSC to be established; the outcome of an agreement signed between the *Confederation of Swedish Enterprise* (SAF) and the *Federation of Salaried Employees in Industry and Services* (PTK). The main idea behind the agreement was that both partners wanted to give white-collar employees of the private sector "something extra" compared with the various educational and retraining schemes organised and financed by the government through the PES, which had proved insufficient in

meeting the special needs of white-collar employees. Nowadays, TRR covers 850 000 employees from 32 000 companies in the private white-collar sector. TRR offers three services: i) counselling for redundant employees; ii) counselling for managers and union representatives; and iii) financial support to redundant employees.

TSL – The JSC for blue-collar workers

TSL is the JSC for blue-collar workers. It is defined as an adjustment insurance system based on a collective labour agreement with the aim to "facilitate employees, companies and unions when the company is forced off staff due to redundancy". The TSL system was founded by the Confederation of Swedish Enterprise and LO, in February 2004. Approximately 100 000 companies in the private sector are connected to the system and more than 900 000 blue-collar workers. TSL offers two types of services: i) severance pay (in form of a lump sum given directly to people who have been laid off and handled by AFA insurance), and ii) transition support. TSL does not employ job coaches itself because it sub-contracts to approximately 80 companies that compete to offer transition programmes. The company and local union together choose the supplier of transition services (see Chapter 4 for more details).

TSN – The JSC for public sector workers

Also jobs in the public sector are no longer as secure as it used to be in the past. This has created a need for better support for government employees. The main JSC for state employees is the *Job Security Foundation* (TSN). It was established in 1990 under the *Job Security Agreement for Government Employees* which entered in force in the same time, in sake of the foreseen changes in the government sector.[9] It covers 250 000 government employees. The TSN services include individual action plans, job-seeking activities, coaching as well as severance payments and income supplements. All activities are based on the agreement and are financed by fees paid by the employer, i.e. the government agencies. The fees are regulated by a collective agreement.

Financing arrangements

All JSCs, and their activities, are financed by the employers paying a fee based on their labour cost, but the use of the services is equal for all members of the Job Security Council. The contribution's level is determined as part of the collective agreement and varies by each JSC. More specifically, TRR is funded by a membership fee of 0.3% of the company payroll for employees covered by the agreement. Similarly, TSL is also

funded by a fee of 0.3% of the company payroll for Swedish Enterprise member companies, and 0.6% for those companies that are not members but who signed a collective agreement with an LO union.

As a result, these councils function as a form of insurance, sharing the risk and costs of restructuring among its members. This means that unlike in many other OECD countries, workers employed by small- and medium-sized companies also have access to the transition services.[10] Nevertheless, the special agreed services are often less known to very small businesses as they do not have local trade union representatives, who have the knowledge and the experience of job security agreements and transition services at the workplace. In addition, the permanent status of these councils also have an advantage over the ad-hoc/temporary measures seen in other countries such as Australia and Canada, which usually only come into force in the case of mass dismissals.

By and large services provided by the JSCs can be viewed as a compliment to those provided by the PES. JSCs are actively involved in the process of restructuring and provide comprehensive advice and consultation to employers, trade unions and individuals at an early stage in the process. In contrast, the PES will typically come in following job loss. The two very distinct functions of the two organisations lend to a sound support system for the majority of displaced workers. Nevertheless, the division of employment services between two actors poses challenges in assisting some displaced workers as illustrated in Chapter 4 of this report.

Conclusions

Social partners play a prominent role in Sweden in the process of restructuring. The importance given to collective agreements, which sometimes replace statutory provisions as binding laws, in regulating the labour market is a central feature of the Swedish labour market model. The central role of the social partners translates into comprehensive support for displaced workers who receive strong help in the transition from job to job. This support is provided by the Job Security Councils: permanent non-profit foundations that provide advice and consultation to employers as well as transition services and guidance to workers before dismissal takes place.

The role of the government is more limited in the restructuring process but several government departments made concerted effort to minimise the adverse effect of the global financial crisis. The main government department with responsibility for labour market policy related to displaced workers is the Ministry of Employment, acting through the public employment service. Unlike JSCs, services provided by the PES come after a dismissal take place and programmes are not typically tailored to the needs of displaced workers.

The high re-employment rates and moderate income losses experienced by Swedish displaced workers suggest that this unique model works well. Still, the type of services received varies with the JSC and a very significant and increasing share of the workforce is not covered at all. Hence, a new balance of responsibilities will have to be sought, where the government and in particular the PES plays a greater role and insures that all displaced workers are offered appropriate and equivalent support.

Notes

1. The distribution of responsibilities between the PES and the social partners is very different for the long-term unemployed. For these disadvantaged workers the government plays the main role and the social partners only a minor one.
2. The Ministry of Employment is responsible for mainstream employment services, labour market programmes and benefits such as unemployment insurance, activity support and development allowance. It also regulates labour law and, through the National Mediation Office, mediates in labour disputes, promotes an efficient wage formation process and oversees the provision of public statistics on wages and salaries (http://www.mi.se/other-languages/in-english/).
3. Employment policies and their delivery have undergone substantial change over the past two decades. And after the introduction of the JSC for blue-collar workers, TSL, in 2004, the role of the PES has been scaled down consistently, and it is now limited merely to provide information services to redundant workers, most often through an internet-based information system.
4. The local governments have a comprehensive responsibility for the planning and development of their area and for delivering services such as schools and welfare. The national government operates agencies related to the national system of transfer payments (pensions, as well as benefits for the unemployed and sick), tertiary education and infrastructure agencies. For more information on the Swedish Government system and the interaction within different levels of governments, see OECD (2010), Chapter 3, and OECD (2015).
5. The most important goal for Swedish trade unions is to achieve the highest possible wages for the community (Lundh, 2008). Behind this attitude is the Swedish "equal pay for equal work" ethos or the so-called "wage solidarity" model intended to keep wage levels on an equal level across sectors and implying that low-productivity firms will be displaced as they face higher labour costs than they could afford thus moving workers from unprofitable firms to more productive ones.

6. The fact that members are bound by the collective agreement means, inter alia, that employers and employees may not reach separate agreements in violation of the collective agreement.

7. Such as working hours, pensions, insurances and severance payments.

8. These agreements are collective agreements reached between the social partners as the result of negotiations facilitated within the framework of Swedish employment protection legislation.

9. Since the 1990s in Sweden, many government-owned companies were to be privatised or restructured due to the deregulation of monopoly markets. To handle structural changes in the public sector, the social partners developed and agreed on a job security agreement within the collective agreement – a tool for social partners to take care of redundant workers and to handle redundancies (Bergström, 2009).

10. Around 80% of the individuals who receive transition support from TSL (the JSC for blue collar workers) were previously employed in SMEs, with up to 249 workers (Bergström, 2014).

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Chapter 3

Anticipating and responding to economic restructuring in Sweden

This chapter analyses the most important policy measures in Sweden that take effect prior to workers being dismissed, in order to prevent excessive job displacements. Such measures assess the role of the social partners in the early stages of the restructuring process and include employment protection legislation, which determines the process through which employers can dismiss workers and short-time work and wage adjustment policies, in turn helping to limit excessive lay-offs.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Employers' labour requirements vary continually as sales fluctuate and production technologies and work practices evolve. Many of these changes can be accommodated through internal adjustments, rather than firing of existing and hiring of new workers. For example, employees may be retained during a business downturn by temporarily reducing their hours of work or assigning them to non-production activities (e.g. training or maintenance work). Even when a firm's labour requirements have permanently declined for a certain type of worker, it may be possible to retrain those workers and transfer them to other parts of the firm. However, not all jobs can or should be saved. Effective, timely, well-targeted adjustment assistance can assist workers whose dismissal cannot be avoided to get an early start at finding new jobs. These types of preventive and anticipatory adjustment support are attractive to the extent that they can reduce the incidence of displacement and its adverse consequences for workers without undermining the dynamism and the efficiency of the economy.

One salient feature of the Swedish system is the extensive support provided to both employers and unions to help them manage economic restructuring and facilitate a smooth process for all those affected by it. These efforts are underpinned by the focus of policy on structural adjustment rather than on preventing job losses. The latter also explains the limited use of wage adjustment policies and short-time work schemes up until the recent global financial crisis. The government has since established a national short-time work scheme. Employment protection legislation is higher in Sweden than in other OECD countries and tilted towards protecting older workers and those on regular employment contracts; this partly explains why displacement rates are relatively higher among young and prime-age workers (see Chapter 1). This chapter investigates whether short-time work schemes can operate in a timely and smooth manner in times of economic downturns; and the role of employment protection in dealing with economic restructuring.

Measures to help anticipate and manage economic change

Tools and policies to adapt to economic change are well developed

Economic forecasts are an important tool used in Sweden to anticipate restructuring. The importance of such forecasts is driven by the wage negotiation process through which the social partners aim to determine competitive wage increases and thereby minimise the need for restructuring and job loss: too high wages can increase exposure to competitive pressure and external shocks and therefore raise the risk for restructuring.

In Sweden, economic and labour market projections are carried out by a range of actors, including the national government, regional and sectoral bodies, and the social partners. For example, the National Institute of Economic Research conducts analyses and forecasts of the Swedish and international economy. The PES also offers a continuous forecasting of demand and future competition for about 200 occupations while Statistics Sweden makes systematic projections on general labour market trends. Finally, *LO-Ekonomerna*, a research unit of the Swedish Trade union confederation, develops economic projections which feed into the decision-making process during wage negotiations (see Bergström, 2009 and 2014 for an overview on institutions involved in forecasting activities).

While forecasts can help various actors to anticipate the future needs of the labour market, managing change or workforce reduction can entail challenging procedures and decisions for both employers and unions. Providing them with support can influence the way change is managed and thereby minimise some of the negative impact of economic restructuring incurred by individuals. Job Security Councils (JSCs) play a unique role in the Swedish system during the preparatory stages of restructuring with the aim of supporting employers and unions to manage and facilitate a smooth transition process. The JSCs do this by providing tailored advice and counselling services to both employers and trade union representatives very early on; as quickly as when employers are first considering their restructuring options. Many JSCs offer seminars and training – delivered by a professional development team – to the executive team, line managers and HR professionals on how to manage voluntary and compulsory redundancies and give information and tips on how to conduct difficult conversation about dismissals with their employees and workers. By way of example, TRR (the JSC for white-collar workers) offers seminars on "The management role in change management" that can be designed and developed according to the needs of the firm.

Similarly, tailored workshops and seminars can be provided to union representatives. The main objective is to equip them with the necessary skills so that they can meet the needs of and help their members in a professional way. Training modules for union representatives can include for instance: i) clarifying the different phases of restructuring; ii) issues to be considered when communicating approved changes to their members; iii) anticipating the reactions of their members; and iv) building an itinerary of most common questions raised by members.

Anticipation and management of change is also reinforced by Swedish legislation. Under the Co-determination Act (1976), employers bound by collective agreements must inform trade unions about any changes in their business and of any planned lay-offs. Although there are no

regulations on when a formal dialogue should be initiated, decisions relating to layoffs cannot be materialised until an agreement is reached between the two parties. The law also allows unions to investigate the economic situation of the firm to determine their own point of view on the decision on organisational change or workplace closure. These rules allow trade unions in Sweden to have substantial influence on the activities of the firm and a prominent role in the very early stages of the restructuring process.

Overall, the extensive supports provided to both employers and unions early on go beyond those in many other OECD countries where services will typically kick-in after the announcement of large-scale dismissals and meet the needs of workers only. Although there are no economic evaluations on the effectiveness of such services, arguably they are conducive to promoting whilst minimising the adverse effects of structural change. On one hand, information sessions and seminars can better prepare employers to manage a complex process and have the advantage of avoiding conflict that inherently comes along with any workforce reduction. On the other hand, involving trade unions in the firm's decision-making process and training their representatives in times of economic adjustments helps workers to retain their confidence in their respective unions and thus allow employees to embrace the support they receive.

Strategies to prevent unnecessary job loss

The most straightforward way for governments to reduce displacement-related costs is to take measures to minimise the number of workers who are dismissed for economic reasons. Employment protection legislation (EPL) – a set of rules governing the hiring and firing of workers – typically has been designed to both protect workers from unfair dismissals and increase job stability with the aim of shielding workers and society from the economic and non-economic costs associated with job displacement. While the costs of displacement can be high, a large body of research has shown that excessively strict or poorly designed EPL can greatly hamper the economy by discouraging job creation, lowering productivity and strengthening labour market dualism (OECD, 2013). Therefore, EPL should be used judiciously and effectively in combination with other measures to preserve economically viable jobs and, when jobs are no longer viable, accommodate as much labour reallocation as possible through internal reassignment of workers and transfers to other firms, rather than job displacement.

The much-discussed question whether employment protection rules are too stringent in Sweden is assessed drawing on two indicators:

- *Regulations for individual dismissal of workers with regular contracts:* this incorporates: i) notification and consultation requirements; ii) notice periods and severance pay; and iii) the difficulty of dismissal and repercussions for the employer.
- *Additional restrictions for collective dismissals:* most countries impose additional delays, costs or notification procedures when an employer dismisses a large number of workers at one time.

Protection against dismissal is high for permanent workers

Employment protection for workers with permanent employment contracts (i.e. open-ended as opposed to temporary contracts) is higher in Sweden, than it is for their peers in most other OECD countries (Figure 3.1, Panel A). While there are no provisions or requirements for employers to offer severance payments, a number of factors make EPL for regular Swedish workers particularly strict.[1]

First, according to the Employer Protection Act, consultations must be held with trade union representatives even if only one worker is to be made redundant. These consultations are intended to facilitate the search for solutions other than the dismissal, as well as to discuss the ranking order in relation to priority rules and can involve substantial delays before notice can effectively start. Second, the formal definition of fair redundancy is very stringent: in case of redundancy, dismissals are deemed fair only if the selection of workers is done in accordance with the *last-in-first-out* (LIFO) principle, also called the "seniority rule", though there is some flexibility in practice (see below).[2] At the same time, compensation for unfair dismissals is very generous. Indeed, severance awards for unfair dismissals in Sweden are the second highest among OECD countries. Third, the law also stipulates an employee who has been laid off due to "shortage of work" has priority in reemployment within the same company for nine months following layoff (subject to having worked at least 12 months with the firm). Finally, notice periods are relatively long compared to other OECD countries. A newly employed worker has a minimum notice period of one month, and this increases by one additional month for every two years of tenure, up to a maximum of six months' notice after ten years of tenure.

Additional requirements employers are required to meet when dismissing a significant number of workers collectively, on the contrary, are relatively light in Sweden in an international comparison (Figure 3.1, Panel B). The main reason Sweden receives a relatively low score on this account is because procedures and notice that apply in the case of individual lay-offs are already very strict. As in other OECD countries, notification of mass dismissals to public employment services is mandatory.

Employers who intend to dismiss at least five workers have to notify the Swedish PES in advance. The notification period increases with the number of workers to be dismissed and ranges from two to six months.[3] Similarly, as in the case of individual dismissals, mass dismissals cannot take effect before negotiations with trade unions. However, there are no specific definitions of collective dismissals; no additional requirements on severance payments and no regulations on establishing social plans detailing measures of reemployment, retraining or outplacement services.

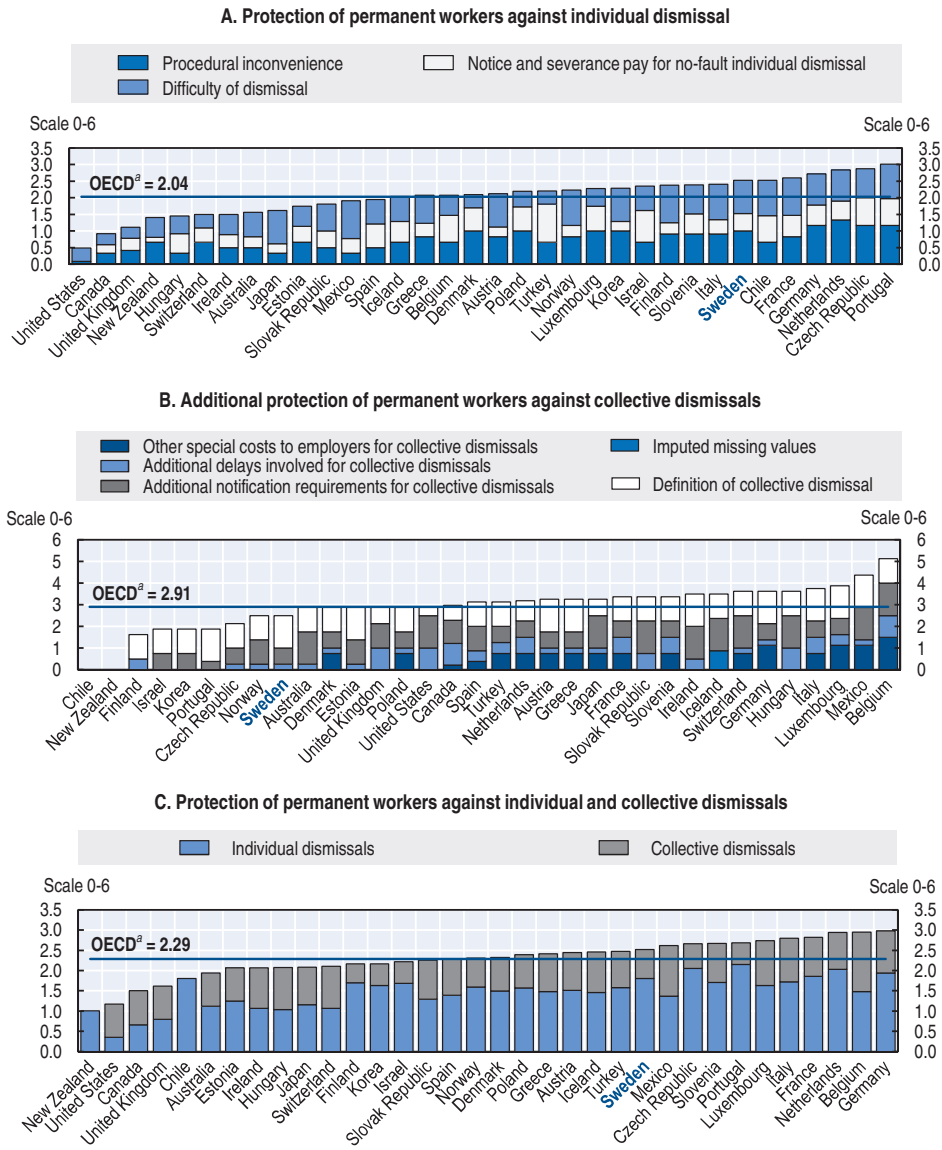
Overall EPL strictness for permanent workers in Sweden, taking together regulations for individual and collective dismissals, is moderately above the OECD average (Figure 3.1, Panel C). Although not at the top of the OECD, Sweden has the most stringent employment protection legislation in the Nordic countries. In a nutshell, Sweden has relatively strict rules concerning wrongful dismissal and heavy consultation procedures, combined with relatively light requirements for mass dismissals and no requirement for employers to provide severance pay.

Collective agreements provide a considerable amount of flexibility in practice but are not sufficient to remove labour market asymmetry

Even if the statutory legislation appears relatively strict in an international comparison, the collective agreements provide a considerable amount of flexibility in practice to deviate from the legal framework. In particular, it is possible to deviate through collective agreement from the LIFO rule and to agree on which workers to be dismissed (first) when there are redundancies.[4] In exchange, trade unions would often negotiate comprehensive transition packages provided by the employer for those employees who were dismissed, including double dismissal periods (12 months) and career counselling services to support them in their efforts to find new jobs. Since 2001, firms with ten or less employees are allowed to exempt two workers from LIFO considerations, i.e. it can assign "key worker" status to two individuals, who will then escape layoff even if they ought to have been the one to go if LIFO were followed strictly.

However, the flexibility in collective agreements has not been sufficient to halt distortions in the labour market. This is demonstrated by the significant rise of labour market duality in Sweden with high protection for workers with permanent contracts on one hand, but low protection for workers with temporary contracts on the other. The gap in EPL strictness between permanent and temporary workers is among the highest in the OECD (Figure 3.2, Panel A). At 17.4%, the incidence of temporary workers also well exceeds the OECD average of 11.4% in 2014 (Panel B).

Figure 3.1. **Employment protection against dismissal is high for permanent workers in Sweden, 2013**



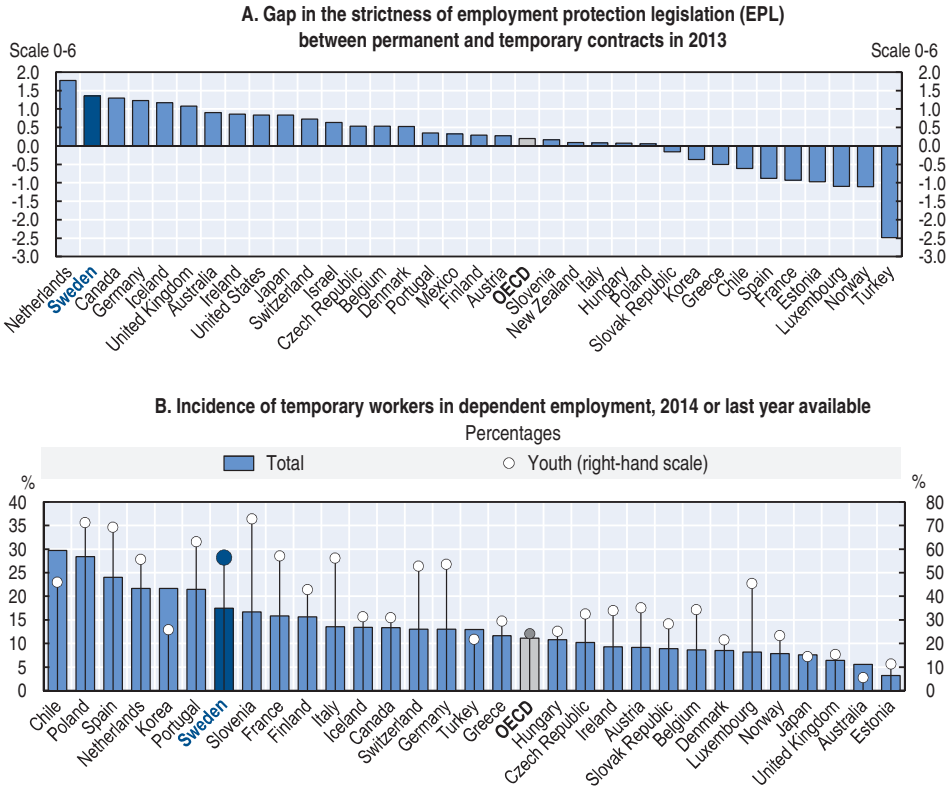
Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator.

a) Unweighted average of the respective indicator shown in each panel for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, http://dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933288822

Figure 3.2. **The gap in employment protection between permanent and temporary Swedish workers is among the highest in the OECD**



Note: Panel A shows the difference between the strictness of employment protection for permanent workers (individual and collective dismissals) and that for temporary workers.

Source: OECD Employment Protection Database, 2013 update, http://dx.doi.org/10.1787/lfs-epl-data-en, for Panel A; and OECD (2014), "Labour market statistics: Employment by permanency of the job: Incidence", http://dx.doi.org/10.1787/data-00297-en, *OECD Employment and Labour Market Statistics* database for Panel B.

StatLink http://dx.doi.org/10.1787/888933288833

While the use of temporary contracts can increase labour market flexibility, very strict regulations on regular contracts in comparison with the regulation of temporary contracts tends to hurt the most vulnerable groups in society. Youth and those with low qualifications are more likely to hold temporary jobs (Figure 3.2, Panel B). And even though temporary jobs can provide good work experience to youth and help them move into permanent jobs, evidence suggests that less than 50% of the workers that

were on temporary contracts at a given year are employed with full-time permanent contracts three years later (OECD, 2014). Temporary jobs among the youth can also increase their risk of future displacement as they acquire fewer firm-specific skills. According to Eliason and Storrie (2006), the vulnerability of the recently displaced to subsequent displacement is due to their relatively low level of firm-specific capital on the new job. The lower level of firm-specific skills together with the LIFO rule make displaced workers and youth in particular more vulnerable.

Additional evidence also suggests that during the global financial crisis, Swedish employers reverted to the legally required LIFO rules when implementing redundancies, and increasingly hired workers on limited-duration contracts and through temporary work agencies as a way to manage fluctuations in labour demand (Bergström, 2014). These findings combined with the relatively higher displacement rates among youth call for easing EPL for those with regular employment contracts as recommended in earlier OECD reports (OECD, 2011 and 2012).

Some 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. However, some components of the Swedish EPL such as the mandatory order of selection of layoffs in case of redundancy, the rehiring priority and the obligations made on the internal reassignment of employees are criticised for reducing turnover of permanent workers whilst increasing turnover of temporary workers (Cahuc, 2010). The effect of these regulations on overall labour market turnover is ambiguous. In particular, it is difficult to assess the impact of the LIFO rule as it has a function similar to severance payments in many other OECD countries recognising the greater wage loss for older and long-tenured workers and their relatively lower re-employment chances following displacement.

In Sweden, 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 can potentially offset some of the adverse effects associated with abolishment of the LIFO rule (see Chapters 4 and 5). Subsequently, further weakening of the LIFO rule as was done for SMEs in 2001 would be desirable. Removal of the rehiring and reassignment rules should also be considered. These reforms should be combined with better reemployment support for those on temporary contracts for example either allowing them access to JSCs that are designed to help workers dismissed due to economic reasons or through faster access to mainstream public employment services (see Chapter 4).

Special measures during the global financial crisis

At the firm-level, there are two main channels for adjustment to external shocks in labour demand: adjustment in the cost of labour through wage levels and adjustment in the quantity of labour through working hours and/or employment levels. Both channels have seen significant reform in recent years, in response to the unemployment shock from the global financial crisis.

Policies to prevent job loss were adjusted temporarily during the crisis

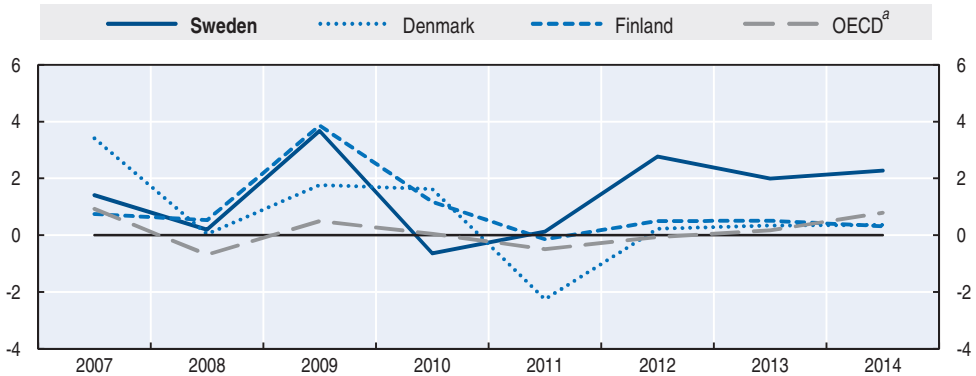
Reducing labour costs is one straightforward mechanism available to firms when they face economic difficulties. This may include cutting wages, wage freezes, or reversing wage increases that have already been negotiated. It may also include reducing various forms of benefits such as holiday compensation. Such measures are, however, usually unpopular among workers and their representatives given their adverse social effects. High wage cuts can lead to economic hardship for households but also reduce consumer spending and lower aggregate demand. In Sweden, wage-reduction policies are therefore uncommon. Trade unions are highly reluctant to accept any reduction in wages in fear that this will threaten their bargaining power in future wage negotiations or that employers will demand wage reductions even when there are minor downturns in the economy.

Notwithstanding the resistance from trade unions, the affected the general wage negotiations between social partners whereby a number of local agreements approved wage reductions, wage freezes or a postponement of anticipated wage increases, especially in manufacturing. For instance, Scania with its respective trade unions for blue-collar and white-collar workers concluded a local crisis agreement in 2009 with a 10% decrease in pay, a freeze on wage increases and cuts in holiday pay (Eurofound, 2009a). Similar measures were also taken by Volvo automobiles, notably bonuses for employees were abolished in 2009 and 2010 (Eurofound, 2009b).

During and after the crisis, real hourly wages displayed some flexibility and wage adjustments were important in mitigating job losses (Figure 3.3). Wage moderation was all the more important in Sweden as the earlier centrally-agreed wage increases for 2007-09 were relatively high, potentially hurting job creation and employment prospects of disadvantaged groups in the labour market such as youth (OECD, 2011). Average real wage growth (a measure of the growth in the purchasing power of wages) in Sweden turned negative, at -0.6%, in 2010; this was a stronger drop than in Denmark and Finland and much larger a decline than on average for the OECD. In the aftermath of the crisis, real wage growth was back to 2%, again reflecting considerable wage flexibility.

Figure 3.3. **Real hourly wages in Sweden displayed flexibility during the global financial crisis**

Annual percentage change, 2007-14



a) Weighted average of 30 OECD countries (excluding Chile, Iceland, Switzerland and Turkey).

Source: OECD estimates based on National Accounts country data.

StatLink http://dx.doi.org/10.1787/888933288844

The newly established national short-time work scheme is welcome

Short-time work (STW) schemes are an important tool in maintaining viable jobs at firms experiencing temporarily low demand. They function by encouraging work-sharing through the reduction of working hours, while also providing income support to workers whose hours are reduced due to a shortened work-week or temporary layoffs. STW schemes can lower the social costs of demand fluctuations by helping firms to avoid layoffs, i.e. the permanent dismissal of workers during a business downturn whose jobs would have been viable in the long-run. Avoiding layoffs during temporary recessions has potential benefits for employers as well. Work-sharing may be a mean of retaining valued employees and avoiding new recruitments when sales go up again. Workers who are laid-off may take jobs elsewhere, meaning that any investments the firm has made in these workers' job skills are lost. This may be an especially important consideration when workers are highly skilled and costly to replace when demand rebounds.

Unlike many other OECD countries, where STW schemes are a popular tool in minimising excessive job losses during temporary periods of low demand, their use in Sweden has been very limited up until the crisis. Against the rapidly deteriorating economic conditions in the last quarter of 2008 and early 2009, a temporary STW scheme was negotiated by the social partners to limit the number of layoffs in the manufacturing sector which ended in 2010.

Even then, it was agreed that workers on reduced hours will receive more than the unemployment benefit and unlike in other OECD countries, the scheme was funded entirely by the employers and employees.

In the aftermath of the crisis, in 2013, the temporarily negotiated STW scheme was turned into a permanent one, and since then it operates entirely on a bipartite basis (see Box 3.1). At the same time, the government responded to efforts of the social partners calling for a state-subsidised STW programme. In 2014, a national STW scheme (*korttidsarbete*) was established which will be funded by contributions from the state, the employer and the employee and can be activated when certain conditions are met. As a result, two systems for STW currently exist: one with and one without state subsidy.

Box 3.1. **Short-time work in Sweden during the global financial crisis**

The "Crisis Agreement" in 2009 between IF Metall and Teknikföretagen (the Swedish trade organisation representing employers of multinational engineering and industrial manufacturing companies) approved local agreements between management and shop stewards on STW. Working time could be reduced by up to 20% with a corresponding salary reduction, without any income subsidy from the state or from unemployment benefit funds. The agreement was highly controversial as it internalised the costs of restructuring – something normally opposed by Swedish trade unions that have traditionally preferred that the cost of restructuring should lie with the welfare and the unemployment benefit system. Around 400 plant-level agreements were signed, mitigating the effects of the crisis for the companies involved. The agreements were estimated to have saved 10 000 -12 000 jobs in the industry sector (EIRO, 2012). The agreement expired in 2010.

In late 2013, a new STW scheme was negotiated entirely bipartite between IF Metall and Teknikföretagen which again does not involve any subsidies from the government. With this model, local parties can agree STW without the requirement of a demand-driven crisis as defined by the National Institute for Economic Research (*Konjunkturinstitutet*). Moreover, the agreements are not contingent upon central approval by IF Metall and Teknikföretagen, but an agreement has to be reported to the central parties. The content of this model is as follows:

- *First*, the salary of workers can never be reduced by more than 12% of the normal salary, regardless of the reduction of working time.
- *Second*, STW agreements last a maximum of nine months, but can be renewed as many times as the parties can agree to.

The agreement covers approximately 110 000 workers under the manufacturing collective agreement.

Source: EIRO (2012), "New Short-Time Working Model", Dublin, 14 June, http://www.eurofound.europa.eu/eiro/2012/03/articles/se1203019i.htm; and Ibsen, C.L. (2013), "Short-time Work in Sweden", Confederation Syndicat European Trade Union, http://collective.etuc.org/sites/default/files/EN%20Case%20study_Sweden_Metal%20sector.pdf.

One of the key challenges when operating a STW scheme is to design the programme so as to preserve as many viable jobs as possible while limiting deadweight and displacement effects. Deadweight occurs when STW subsidies are paid for jobs that employers would have retained even in the absence of the subsidy, implying that this spending is a pure transfer which does not limit total job loss. This may occur when firms have sufficiently strong predisposition to retain redundant workers during the period of reduced output demand. Displacement effects occur when STW schemes preserve jobs that are not viable without the subsidy, even after business conditions recover. If these subsidies are maintained, they lock workers into low-productivity jobs and thus represent a barrier to job creation and growth-enhancing labour mobility.

In what follows, the national STW scheme is reviewed against three key elements which have implications on the effectiveness of the scheme:

- ***Eligibility criteria**:* The scheme can only be activated in the event of extremely weak economic conditions. Two criteria will be used to assess the economic situation: whether the economy is facing or about to face imminent recession, and that the system must not prevent desirable structural change. The actual STW arrangements such as the reduction in hours worked must be determined at the local union branch level and employers. Both requirements are likely to reduce deadweight losses. In case of deep recessions, firms are less likely to be capable of preventing job losses by themselves. At the same time, trade unions and other worker representatives are more likely to agree to STW, despite the loss in income that this typically entails for workers, when the only alternative for the firm is to dismiss workers.

- ***Duration**:* Displacement effects are most likely to be severe when a STW scheme offers subsidies for a long period of time. Agreements can last for a maximum of 12 months with the possibility of 12 months extension, contingent upon local agreement and evidence of a continued demand-driven crisis. As a further control measure, employers cannot receive subsidies for the subsequent 2 months, once the initial maximum threshold of 24 months is expired.

- ***Generosity**:* Requirements on firms and individuals to share the costs of STW can be an effective way of reducing deadweight costs. If the STW scheme is activated, the employee, the employer and the government all share the costs and their level of contributions change depending on the reduction of hours (see Table 3.1). With a 20% working-time reduction, the employee incurs a 12% pay cut; the employer pays 80% of the salary *plus* an additional 1% towards the subsidy and the government will subsidise 7% of the salary. The costs borne by the government diminishes relatively, the larger the working time reduction.

Table 3.1. **The division of costs of the new national STW scheme in Sweden**

Percentages, 2013

Working-time reduction (% of normal hours)	Time worked (% of normal hours)	Short-time salary (% of normal salary)	Subsidy by government (% of normal salary)	Subsidy by employer (% of normal salary)
20	80	88	7	1
40	60	84	13	11
60	40	80	20	20

Source: Ibsen, C.L. (2013), "Short-time Work in Sweden", Confederation Syndicat European Trade Union, http://collective.etuc.org/sites/default/files/EN%20Case%20study_Sweden_Metal%20sector.pdf.

StatLink http://dx.doi.org/10.1787/888933288957

The establishment of the subsidised national STW scheme is welcome since evidence from other OECD countries shows that such programmes can have an important impact on limiting job losses during periods of economic downturns. The OECD (2010) has estimated the number of jobs that were preserved by STW schemes in the wake of the GFC in 14 OECD countries, and concluded that deadweight and displacement effects were sufficiently small to allow significant numbers of permanent jobs to be saved. Hijzen and Martin (2012) extended this analysis to cover 23 countries and the recovery period through to Q4 2010 and reached the same qualitative conclusions. The Kurzarbeit programme in Germany is estimated to have preserved the greatest number of jobs during the crisis period. Evidence from Sweden is limited: according to labour unions and employers around 12 000 lay-offs were avoided following the crisis agreements (IF Metall, 2009).

Overall, the national STW scheme is well-designed to minimise deadweight and displacement effects. One of the strengths of the scheme is the cap on the worker's wage loss which cannot exceed 20% of the normal salary, giving substantial income security during the duration of the working-time reduction. The generosity of income support to workers on STW is likely to be an important factor in explaining the relative ease with which social partners are willing to accept a STW agreement in Sweden. However, it is too early to fully assess the impact of the cost-sharing model on programme take-up. The diminishing cost structure in proportion to working time can act as a deterrent for firms who do not foresee business recovery. This feature could discourage take-up when short-term economic conditions threaten employment that is viable in the long-run. The administrative burden of the scheme may also be too high: the Swedish National Institute of Economic Research must provide evidence that an economic crisis is demand driven, which may delay the process and discourage take-up.

It is important to bear in mind that during recessions, the balance of costs and benefits associated with STW schemes may temporarily become more favourable. The efficiency cost of STW may be reduced during a recession since many more jobs are at risk, especially those in firms with limited access to credit, while the social cost of locking workers into unviable jobs is temporarily lower since there is little prospect they could move quickly into more productive jobs. The gains from preventing "excessive" dismissals during a recession may also increase due to the longer expected duration of unemployment and its adverse impact on future careers. These considerations suggest that it is generally desirable to modify eligibility rules and subsidy levels as business cycle conditions change, so as to particularly encourage take-up during recessions while keeping participation low during growth periods (OECD, 2009).

Going forward, the scheme should be carefully evaluated to determine the appropriate employer share in costs and the factors that contribute to programme uptake. Similarly, the use of bipartisan STW schemes agreed among the social partners should also be monitored and evaluated. The practice of the new non-subsidised model is yet unknown. According to IF Metall, no agreements of non-subsidised STW have so far been reported to the central union since the model was only put into place recently (Ibsen, 2013). The risks of deadweight and displacement costs are likely to be low in the absence of a state subsidy. Nevertheless, under this model, local parties can agree STW without the requirement of a demand-driven crisis thus posing a risk that the scheme could inadvertently subsidise jobs in declining industries maintaining economically non-viable jobs and interfering in the restructuring process.

Conclusions

In comparison to other OECD countries, significant efforts are made in Sweden to manage economic restructuring and facilitate a smooth transition for workers affected by it. This is largely achieved through a combination of two factors: the strong dialogue between the social partners, and the role of Job Security Councils which provide tailored advice to both employers and trade unions at very early stages of the process.

The crisis was a catalyst in changing the dynamics in Swedish labour market policy. Wage adjustment policies and STW schemes that are normally considered a taboo were adopted by several firms to mitigate job losses. Real hourly wages have shown considerable flexibility in the peak crisis years, and more so than in other Nordic countries. In recognition of the high job losses especially in the manufacturing sector, the government has established a national STW programme which is funded by employers,

the employee and the State. The scheme is well-designed to minimise associated displacement and deadweight costs. However, eligibility criteria could prove to be too strict – the fall in economic activity must be demand driven – thus potentially jeopardising take-up in the event of future economic crisis.

EPL includes heavy notification procedures in case of dismissal, stringent regulation of the order of layoffs in case of redundancy, a relatively broad definition of unfair dismissals and sizeable compensation following such dismissals. But much of this only applies for permanent work contracts. The gap in the rigidity of EPL between permanent and temporary workers is among the highest in the OECD, which risks creating and has already contributed to considerable duality in the labour market. Removing the asymmetry in EPL between temporary and regular contracts would address this duality and further improve the ability of the Swedish labour market to respond to economic change. Such reform should be combined with better re-employment support for workers on temporary contracts as discussed in the next chapter.

Notes

1. Severance payments are regulated in collective agreements between the employers' confederation and the trade unions.
2. According to the Employment Protection Act, when a firm decides to lay off employees due to "shortage of work", it cannot pick and choose at will, but must follow the LIFO principle when establishing which employees are to be dismissed.
3. It is two months if the intended dismissal affects any number of workers up to 25. For dismissals of 25-100 workers the notice period is four months, and for those affecting more than 100 workers it is six months.
4. Deviations from the law require consent of the "central" organisations in regards to notification periods and the duty of the employer to negotiate over priority of hiring in cases where the rules for the right to return of formerly dismissed workers apply (Diedrich and Bergström, 2006).

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Chapter 4

Providing effective and early re-employment support to displaced workers in Sweden

This chapter examines the effectiveness of counselling services, job-search supports and training programmes in Sweden to help displaced workers find a new job quickly. It focuses on both the services provided by Job Security Councils early on, especially in the period between notice and dismissal, and the support available from the public employment service, after a worker has been dismissed. Particular attention is given to the growing gaps in re-employment support in an evolving labour market and to differences in the system and outcomes between blue and white-collar workers.

A policy priority in Sweden is assuring that displaced workers can move quickly into suitable new jobs. There are two important sources of re-employment assistance: the Job Security Councils (JSCs) which offer tailored support especially during the notice period and the public employment service (PES) which typically comes in after job loss. The majority of displaced workers receive comprehensive adjustment support. But there remain gaps for the most vulnerable groups. Moreover, the division of employment services between two actors can also lead to inefficiencies and complicate the delivery of measures to assist some displaced workers resulting in delays in providing effective re-employment support. This chapter assesses how effectively the Swedish labour market programmes, both provided by the PES and the JSCs, are suitable for assisting displaced workers.

Re-employment support for displaced workers

As illustrated in Chapter 3, Swedish displaced workers are usually notified about their dismissal many weeks or months in advance. This creates significant opportunities to support workers before they are dismissed. Sweden is making good use of this pre-displacement period providing extensive re-employment support to workers who have received a notification of dismissal.

Majority of re-employment efforts are made during the notice period

Due to the emphasis in the Swedish workplace culture on "protecting people, not jobs", substantive efforts are made to help transfer dismissed workers to new jobs as soon as possible, even before the effective job loss. The idea underlying this system is that employers, who are leading the restructuring process, are responsible for supporting the employee during the transition phase. The re-employment support is entrusted to the system of JSCs, which, entitled by special agreements with the social partners, are allowed to intervene as soon as the workers receive their notice. Thus, unlike the majority of OECD countries where re-employment activities start only after the dismissal, the bulk of re-employment support effort in Sweden is made during the notification period: JSCs kick in as soon as employees are given their notification and the so-called transition period starts.

The role of JSCs is motivated by two principles: First, the fact that a notified worker can become disheartened and be sceptical and reluctant to adapting to the new situation. Second, the belief that such a structural change of job can actually have positive consequences and lead to career improvements. JSCs play an important role at various stages in the

restructuring process; however they become the main actor during the transition phase. Since this vision is shared by all JSCs independently, a similar set of transition services are offered by all JSCs (especially TRR, TSL and Job Security Foundation; see Chapter 2).

During this transition period, JSCs offer a range of activities and measures to support displaced workers. Initially, support activities include counselling and coaching, activity plans and competence development activities to strengthen workers' employability regardless of their potential dismissal.[1] After these initial activities, other measures including training, personal development and/or help for starting a new business can follow if necessary. Certainly, the needs among those who have been given notice vary according to their ability to find a job. The case of a Saab Automobile company that was declared bankrupt provides a good example of the ability of both TRR and TSL to facilitate transition of displaced workers to new jobs by quickly implementing ad hoc measures for the dismissed workers (see Box 4.1).

Box 4.1. **Special transition services: The case of Saab Automobile companies**

The bankruptcy of Saab Automobile in December 2011 implied that 3 064 workers were made redundant in the Trollhättan municipality in Sweden. Among other actors, Job Security Councils took several measures to mitigate the consequences of the Saab closure. These measures primarily focused on helping workers cope with the psychological shock that came with sudden job loss and supporting their transition to new jobs. Major efforts took place in two stages and can be summarised as below.

Pre-dismissal period

A number of steps were taken in the early stages of restructuring before redundancies were announced publicly to ensure delivery of a well-resourced and a timely service.

- As soon as the company declared its bankruptcy internally, the two JSCs involved – TRR for white-collar workers and TSL for blue-collar workers (with transitional support provided by Startkraft) – started to contact workers who were in threat of redundancy to provide information on their services.
- Both TRR and TSL were also well-prepared for the eventuality of the bankruptcy. During the autumn of 2011, they made numerous contacts with possible advisers and coaches, ensuring that they would be able to serve the clients at the onset of the Saab closure.
- In anticipation, they both searched for large enough offices in central Trollhättan to ensure that they could accommodate the thousands of people joining their transition programmes.

Box 4.1. **Special transition services form TRR and TSL: The case of Saab Automobile companies** *(cont.)*

Post-dismissal period

Several measures were taken once notification actually materialised into actual redundancies.

- The first step was to set-up individual meetings with all workers who were officially dismissed. Beside identifying employment barriers, these meetings focused on psychological aspects of job loss recognising that a good termination of the old employment situation together with an understanding for, or an acceptance of, the displacement's reasons are a key motivating factor in the subsequent job-search process. Coaches noted that they had to spend a lot of time and energy to support the former Saab workers in mourning the loss of their jobs, and to make sense of the bankruptcy of their former employer.
- In many cases workers had never searched for a job, or if they had, it was a long time ago. CV writing workshops and job interview simulations were organised to prepare workers in their job search activities.
- The JSCs also provided recruitment services. Employers who were interested in employing former Saab workers could contact the councils asking for specific competences. The coaches that served also as "job hunters", could forward the vacancies to the clients who matched with the positions and could contact employers to inspect if they needed specific skills.
- To motivate clients, the JSCs set up a wide range of group activities, workshops, seminars, lectures, job fairs and study visits in order to engage and activate the redundant workers to search for new jobs.

Source: Eurofound (2014), "Effects of restructuring at regional level and approaches to dealing with the consequences", European Foundation for the Improvement of Living and Working Conditions, http://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1441en.pdf.

The duration of such services varies according to the worker's age and tenure. The period during which transition services are being offered differs across JSCs, but it is generally two years from the notification period. TSL supports clients for 12 months but it is possible to go back once this period has expired. TSL statistics for 2014 show that the median length of transition services is 185.5 days (slightly more than six months), while only 118 days are spent unemployed. During the transition period workers generally remain under an obligation to work. However, in some cases they can be exempted from working (if allowed by their employer) and, thus, they can use their remaining working time until the termination of their employment to look for a new job, attend employment interviews and visit the local job centre.

Intensive counselling services make up the core of re-employment assistance. Upon the approval of the application for adjustment assistance, each dismissed worker is assigned to a personal adviser.[2] Generally, if the worker has worked for at least 12 months in the company in a permanent position, he/she can receive personal advice to find a new job or on starting his/her own company. Counselling meetings with a personal advisor are about every two weeks, but the service can be customised to meet the clients' needs. These meetings are not mandatory and no formal action is taken in case these are not attended but all JSCs emphasize the importance of being very active from the beginning.

The advisor acts as a job coach and the aim is to assess the experience, the skills and the aspirations of the client. Adjustment support is *help to self-help* with the aim of increasing opportunities for receiving new employment. The job coach also assists the worker in writing a CV or resume and a job application and helps practicing for the interview. If considered worthwhile by the advisor, the worker has the opportunity to take part in skills enhancement programmes. TRR, the JSC for white-collar workers, also offers a web tool, *TR online*, a complement to the counsellor through which the jobseeker can exercise in interview training, mock interviews and CV completion.

TRR also offers an Early Risk Service to its clients which encompasses a set of special anticipatory measures focusing on career planning, addressed to *all* workers who could potentially be affected by displacements, before the actual notice of dismissal is given. The aim is to better prepare employees for possible future displacements through individual consultations, professional support in the personal development process and career planning. The Early Risk Service is in principle open to all employees, not only those notified of a dismissal, but the company and the local trade union need to agree on the groups that can participate. The service is usually offered for a period between three and five months and might be terminated earlier if TRR, as a result of discussions with the company in question, concludes that the redundancy situation in the company is unclear.

The public employment service quickly mobilised resources during the global financial crisis but intervention is far from comprehensive

Requirements to notify the PES in the case of dismissals are relatively strict: employers must notify the PES as soon as possible if more than five workers are going to be dismissed. In most cases, however, the PES will not take any special action or provide any tailored programmes to displaced workers during the notice period or immediately following a lay-off.

When contacted regarding a notification of collective redundancies, however, the local PES office may, in collaboration with the affected actors, establish a consultative group with representatives from the PES and the employer to support the adjustment process. But even then actions remain limited. In general, the PES may send counsellors to the affected workplace to inform all notified workers about its services. In some cases, a local employment office may be established at the notified workplace. The type of activity organised depends on each individual case.

By way of a good example, the Swedish PES acted immediately when information was received about redundancies at Volvo Cars caused by the economic crisis in 2008-10. A consultation group was established to co-ordinate proactive and preventive measures, including the establishment of a temporary employment office at Volvo, assessments of individual needs, special coaching and preparatory measures and job fairs for potential employers to recruit redundant Volvo staff. The consultation group included representatives from the PES, the JSC, the company itself and the involved trade unions (ISSA, 2013).

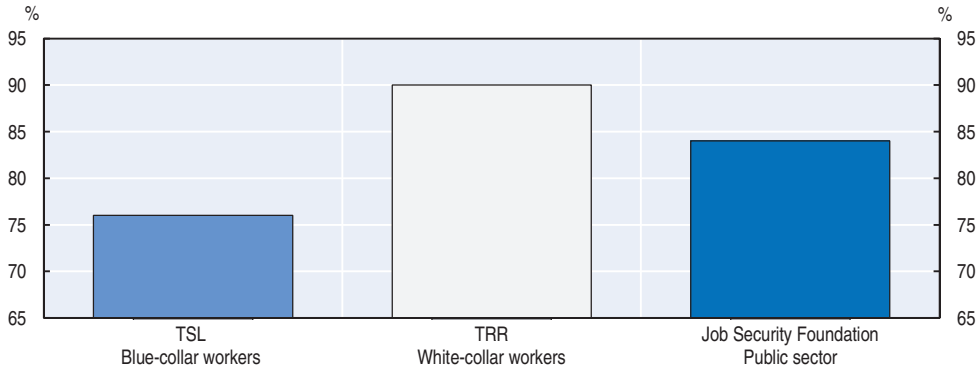
Although the PES reacted promptly to mitigate the adverse effects on workers made redundant at Volvo Cars, anecdotal evidence suggests that substantive efforts were made by local social partners to pursue interest of the local PES. In addition, the PES lacked resources to fully support the transition process and thus, following a government application in 2009, the European Globalisation Fund granted Sweden about EUR 9.8 million in order to be able to provide measures to help people who had been made redundant from Volvo Cars and its subcontractors.

Job Security Councils are successful in re-employment but rigorous evaluations are missing

Overall the success of the JSCs in placing dismissed workers into new jobs is remarkable. Dismissed workers often find new jobs quite rapidly: on average, 80 to 90% find new jobs within 7 to 8 months, often without using any PES services. Results for 2014 show that 90% of white-collar workers affiliated to TRR who actively looked for work found a new solution within seven months, and that 84% of workers of the public sector affiliated to The Job Security Foundation found a job or other solutions before their period of notice expired. This compares with 76% on average for blue-collar workers affiliated to TSL (Figure 4.1). But for blue-collar workers outcomes can vary considerably, with 45 to 90% finding a satisfactory solution within one year, depending on the service provider.

Figure 4.1. **Job Security Councils' re-employment rates are high, especially for white-collar and public sector workers**

Percentage of clients re-employed within 12 months or less after displacement



Note: These results refer to 2014 except the result for TRR that refers to 2013. TSL result is referred to a period of 12 months, TRR to a period of 7 months and the Job Security Foundation result is the rate of success before the expiration of the period of notice.

Source: OECD compilation based on *TSL Online Database*, http://www.tsl.se/rapporter-och-statistik/statistik/, information provided by TRR during the OECD fact-finding mission to Sweden in September 2014; and Bergström, O. (2014), "Back to work in Sweden: Job Security Councils and alternative measures", Presentation at Gothenburg University during the OECD fact-finding mission to Sweden in September 2014.

StatLink http://dx.doi.org/10.1787/888933288851

Re-employment rates can differ by demographic characteristics such as gender and age. On average, blue-collar women helped by TSL are less likely to find a job than men (72% vs. 78%) and they also tend to find lower quality jobs: they less often end up in a permanent job (30% vs. 41.5%) and more often in fixed-term contracts or on-call employment (42% vs. 34%). On the other hand, more women served by TSL than men go back to education (6% vs. 2.5%) and slightly more of them participate in labour market policy measures offered by the PES such as training (2.5% vs. 2%). Among the different age groups, prime-age workers (25-39) experience the highest re-employment rates (around 80%). At around 75%, older workers aged 50-59 follow closely behind albeit chances of re-employment fall dramatically at the age of 60: only 45.5% find a new job (Figure 4.2). Younger displaced workers (aged 15-24) also have relatively high re-employment rates (70%) but are more likely to end up on temporary jobs than any other group.

Figure 4.2. **Prime-age displaced workers are more likely to find jobs than younger and older counterparts**

Employment outcomes for TSL clients, by age group and type of contract, percentages

Source: OECD compilation based on data from *TSL Online Database*, http://www.tsl.se/rapporter-och-statistik/statistik/.

StatLink http://dx.doi.org/10.1787/888933288869

Looking at the quality of the new jobs found by displaced workers there is further evidence that white-collar workers end up in better jobs. Nine of ten workers helped by TRR in 2013 managed to find an equal or improved position with respect to wages in previous job. Additionally, while 65% of all workers serviced by TRR find a new *permanent* job within six months, this is the case for only 38% of blue-collar workers affiliated to TSL. It is more common for blue-collar workers to find short fixed-term positions (20% find fixed-term contracts of six months or less and only 9% find fixed-term contracts of longer duration). During the global financial crisis, the proportion of blue-collar workers who found short-term contracts increased significantly, from around 20% of all those who found a job, to around 30% (TSL, 2015). TRR workers are also more likely to become entrepreneurs: in 2013, 8% of TRR affiliates vs. 2% of TSL affiliates started their own business in 2014.

The success of JSCs in helping displaced workers finding new jobs is also reflected in the high level of client satisfaction. However, the same differences between JSCs remain, in line with differences in re-employment rates. While 88% of all white-collar workers appear very satisfied with the help, advice and activities provided by TRR and 90% of them trust their personal advisor, only 64% of TSL clients are satisfied by the services they have received.[3] Among the success factors of TRR is the thorough knowledge of the labour market and a high engagement in the community with a sound local presence combined with a focus on the individual and a reliable and documented method.

The lower satisfaction rate among blue-collar workers on the other hand can be partly attributed to the employment service delivery model. JSCs can be organised in different ways: while TRR works with its own advisors and counsellors, TSL outsources its transition activities to more than 100 small independent suppliers (see Box 4.2 for details). Evaluations on the effectiveness of the two service models are missing but the rather variable success rates suggest that the quality of services – contracted out under the TSL model – can vary substantially from one provider to another. For example, some providers have less expertise in helping displaced workers with their job search and experience difficulties in identifying the appropriate job market for them. TSL will have to seek ways to assure better service among providers, by measuring service quality and outcomes, allowing service competition and eliminating poor-quality suppliers. The Australian employment service system with its well-developed start-rating system to measure service quality could serve as a good practice model in this regard (OECD, 2012).

Box 4.2. **Job Security Councils use different delivery models**

While TRR is fully responsible for its support activities, TSL, the JSC for blue-collar workers, operates through a network of more than 100 suppliers of outplacement activities. Employers can freely choose the supplier and can order specific tailor-made restructuring programmes to be implemented in the workplace. Differently from the TRR, in the TSL case the responsibility of the service provision is shared between TSL, the service provider and the local union representative. In a co-operation agreement between the provider and TSL, suppliers of transition services accept TSL conditions but the local social partners, who together with the company choose the service provider, have full responsibility for the quality of the transition programme.

Initially a free competitive market with many suppliers helped to spur differentiation and specialisation. But this is no longer the case. Today, TSL suppliers are offering very similar services and the quality cannot always be guaranteed. Some of the differences in terms of support programmes offered are related to differences in the sectors within which the redundancies occur, the situation of the individual workers who have been dismissed, their particular interests as well as the current state of the labour market.

Source: Diedrich, A. and O. Bergström (2006), "The Job Security Councils in Sweden", Institute for Management of Innovation and Technology (IMIT) and Monitoring Innovative Restructuring in Europe (MIRE), Gothenburg University, 5 October, www.imit.se/pdf/reports/2007_145.pdf, and information collected during the OECD fact-finding mission in September 2014.

Overall re-employment rates have been very high even during the global financial crisis of 2009, a year in which the number of applications for transition services and the number of people obtaining such support increased dramatically. However, it is important to bear in mind that many of these are results from single case studies; rigorous evaluations on the real effectiveness of

JSCs are missing. It is therefore difficult to discern whether the success of JSCs can be attributed to their services or to other factors, like the Swedish labour market model that prioritises flexibility and mobility and the characteristics of displaced workers. Some scholars argue that JSCs tend to cream skim, meaning that they deal with dismissed workers who are competent, easily employable and prone to quickly move into new employment, avoiding the most difficult cases (Bergström and Diedrich, 2006).

Arguably, the provision of job-search counselling and other services during very early stages after the worker was given notice (and sometimes even before) is fundamental in explaining the very high re-employment rates. Indeed, following the employment outcomes of more than 143 000 redundant workers between 2007 and 2013, a recent evaluation from TSL shows that employment rates were 14 percentage points higher for those who received intervention during the notice period compared to those who received help only after several months of unemployment (TSL, 2014). Although no causal link can be drawn, early intervention has many advantages. For instance, while still employed, people can utilise their on-the-job contacts and do not suffer from being unemployed or from the stigma coming with unemployment as the latter may be interpreted as a signal of low productivity by a prospective employer. In addition, as information is the key to efficient matching on the labour market, JSCs are better placed than the PES to know about the skills and personal characteristics of workers who are at risk of being dismissed. Taken together, the search capabilities of the worker during the notice period and the matching competences of the social partners are conducive to efficient matching (Storrie and Ward, 2007).

Addressing gaps in re-employment support for vulnerable groups

JSCs together with the PES are likely to reach out to a significant share of workers who lose their jobs for economic reasons. Nevertheless, there remain large gaps in the provision of re-employment support for certain groups in the labour market and inefficiencies in the system resulting in substantial delays in accessing the right support. This section discusses these challenges and policy options to address them.

The most disadvantaged groups are only partially covered by JSCs

Due to the eligibility requirements that job security agreements impose, JSCs do not often offer transition services to the most vulnerable workers. Workers with alternative working arrangements including fixed-term and temporary contracts as well as part-time employees, despite their employers being part of job security agreements, are not eligible for transition services. And, as highlighted in Chapter 3, the composition of the increasing temporary workforce is unevenly distributed by age. It is primarily younger

workers who are employed on a temporary basis. This creates a double disadvantage: they are disproportionally affected by economic restructuring because of the LIFO rule, yet have limited access to early intervention measures and re-employment support via JSCs.

Uneven access to rapid re-employment support is likely to further entrench insider-outsider problems in the Swedish labour market whereby relatively experienced workers through the support of JSCs have better support as well as better access to employers who seek to fill vacancies whilst leaving out the more vulnerable who already struggle to gain a strong foothold in the labour market. The change in composition of dismissed workers, i.e. increasing numbers of workers with temporary and fixed-term contracts, has raised concerns about the financial viability of some JSCs. For example, in the case of TSL, many transition service providers are struggling with structural costs as a consequence of the decrease in the number of clients, due to the shift towards service-sector jobs and an increase in the number of fixed-term workers who they cannot support.

The policy discussion among social partners and JSCs on the inclusion of temporary workers into JSCs' transition services has already started but progress is slow. Temporary workers in the government, culture and non-profit sector already have access to their affiliated JSCs but there are no changes currently foreseen in the regulations of JSCs working for the private sector. Against the potential benefits of early intervention services during the notice period and the high risk of those on temporary and fixed-term contracts to fall through the cracks, JSC services should be extended to all workers who are notified of dismissal. Access to tailored supports for displaced workers exists in a few other OECD countries too and where they do, they are generally delinked from the type of the employment contract. For instance, in Canada (in the province of Quebec), a specialised adjustment programme known as CREC provides support to workers affected by individual and small-scale displacements. Like the Swedish JSCs, the Quebec programme is permanent, albeit the measure is funded entirely by the government (OECD, 2015a).

Moreover, those who do qualify for support from a JSC do not necessarily have access to the full range of labour market interventions to support their transition to work. Generally speaking, JSCs dedicate limited resources to provide training or skills upgrades to their clients. However, while TRR in some cases may provide tailored and short-term training to white-collar workers, TSL does not provide any training to its members, the only training provider for blue-collar displaced workers being the PES. This raises two sets of problems that in particular affect blue-collar workers who may often be in greater need of training. First, unlike white-collar workers, they receive no support during their notice period to improve or develop their competencies. This is problematic as many workers can potentially have very long notice periods of, sometimes, up to one year. In other words,

training is delayed until the dismissal has taken place, when the blue-collar worker is unemployed. Second, the division of re-employment support services between two separate bodies (counselling services by the TSL and training by the PES) is likely to amplify the delays in service which blue-collar workers face and hamper their re-employment prospects. Currently, there is no systematic way of referring workers to the PES and even then training often comes too late and is often limited to the most disadvantaged groups of the labour market (see further below).

The limited provision of training by JSCs to blue-collar workers can be attributed to several factors. 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. One major explanation in the different financing arrangements is that since the inception of the JSCs for blue-collar workers, it was implicitly assumed that labour market training is a responsibility of the PES. The outsourcing of re-employment services to many small suppliers is also regarded as an impediment for offering training courses.

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 central government could also contribute to JSCs for blue-collar workers. One advantage of the latter approach is that it avoids additional delays workers experience when revolving between the JSC and the PES. Moreover, JSCs have the ability and expertise to intervene very early allowing them to screen individuals in greatest need of training. Alternatively, an automatic referral system can be set-up whereby workers identified in need of training early on are automatically referred to the PES and fast-tracked to labour market programmes.

Targeted support by the PES is limited and comes in too late

Despite comprehensive services provided by JSCs, a substantial number of workers seek support from the PES including: i) workers whose employers have not signed to a JSC through a collective agreement; ii) dismissed workers who have not found jobs while being helped by a JSC; and iii) blue-collar workers who are in need of training (as highlighted above). The latter two groups are most likely to experience greater difficulties in the labour market as they remain unemployed at the end of their transition period.

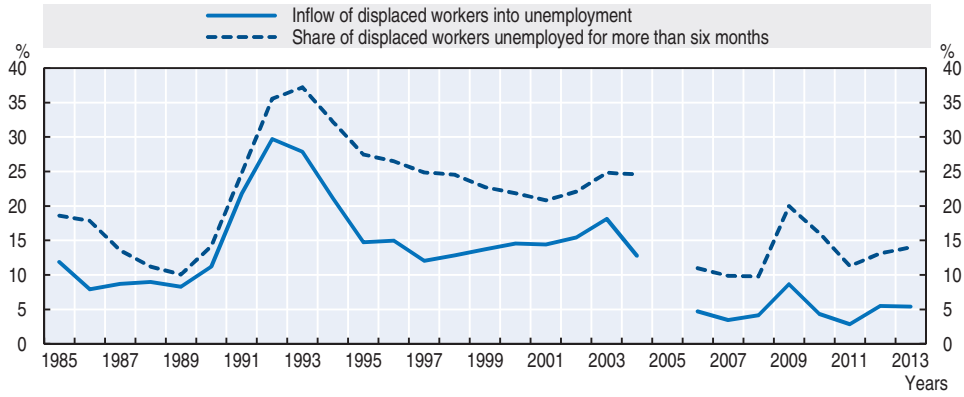
Displaced workers, however, are likely to receive very limited support when they first register with the PES. Generally speaking, counselling services and participation in active labour market programmes is limited to priority groups such as long-term unemployed, disabled and immigrant

workers. For all other groups, intensive support is only given after 300 days of unemployment via the Job and Development Programme, when the period of unemployment payments has ended. 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. Individuals at risk of long-term unemployment should be spotted at this stage and put on the track for early interventions. However, the profiling tool does not include indicators such as the underlying reason for dismissal to expedite the referral process to intensive labour market programmes. Moreover, evidence suggests that even though the profiling tool spots individuals at risk more precisely than caseworker judgement alone, its use is not consistent, with counselling staff skipping questions and more experienced PES staff being less likely to use it at all (OECD, 2015b).

There is limited data on the effectiveness of the PES in helping displaced workers transition into new jobs. Available information from labour force surveys suggests that workers dismissed for economic reasons represent a greater share among the stock of unemployed persons than among the newly unemployed. This in turn indicates that when they do get unemployed, they stay out of work for longer periods than those who become unemployed for other reasons (Figure 4.3). The resulting large share of displaced workers among the long-term unemployed population suggests that many displaced workers would be in need of both earlier support from the PES, which they do not get, and better support.

Figure 4.3. **Displaced workers represent a large share of the long-term unemployed**

Share of displaced workers in annual inflow into unemployment and in stock of unemployed



Source: An update of Figure 1.6 in Arbetsförmedlingen (2009), "Arbets-Marknads-Rapport – 2009", p. 18, www.arbetsformedlingen.se/download/18.59a3cc6a1218b235ea4800095/1401114599294/Arbetsmarknadsrapport_2009_1.pdf.

StatLink http://dx.doi.org/10.1787/0888933288875

In light of this evidence, a better balance needs to be sought on how to best target active labour market programmes (ALMPs). The current focus of the PES is almost entirely on supporting the most disadvantaged groups of the labour market. While this is reasonable on grounds of equity, the absence of tailored support in the first year of unemployment is arguably inefficient because the short-term unemployed are in a relatively better position to reap the benefits of employment-enhancing ALMPs. In other words, many displaced workers such as blue-collar workers with significant labour market experience would have the potential to find new jobs relatively quickly with some job-search assistance and short and targeted training courses early on during their unemployment spell.

Going forward, the profiling tool used by the PES should also include indicators identifying displaced workers in need of greatest support early on whilst minimising deadweight costs (i.e. avoid providing help to people who would have found a job without support). By way of example, the employment service in Ontario (Canada) uses a quantitative profiling tool, the so-called employment service suitability indicator, that considers 12 potential barriers to employment, including "labour market change" defined as "having suffered a job loss within the last six months as a results of plant downsizing, closure or layoff" (OECD, 2015a).

Revamping training programmes for displaced workers

The persistence of earnings and wage losses for some groups of displaced workers in Sweden despite overall high re-employment rates (see Chapter 1) suggests that policy needs to put more attention to these groups to avoid long-term unemployment and enduring labour market disadvantage. Since job-search, matching and counselling measures have shown to be among the most cost-effective ALMPs, they ought to be prioritised and provided as part of any policy package to address job loss resulting from restructuring. However, ample research suggests that the extent and distribution of the costs of displacement both in the short-run and in the long-run are largely attributed to the destruction of firm-specific human capital at displacement (Eliason and Storrie, 2006). Labour market training can support this sub-set of displaced workers (especially low-skilled and older workers who also experience the greatest earnings losses) in accumulating human capital that will be useful for new jobs in other firms.

Earlier evaluations of training programmes often found a negative or only very small positive impact on net employment outcomes in the short run. Negative short-term impacts reflect so-called lock-in effects; participants and training providers often expect courses to be completed, and participants in any case have less free time for job search, so job-entry rates tend to fall whilst on the programme (OECD, 2015c). An evaluation of the

training programmes targeting displaced workers in the Swedish automotive industry during the recent global financial crisis confirms such lock-in effects and finds negative effects on the return to work of displaced workers (see Box 4.3). However, a major weakness of most evaluations in general is the relatively short follow-up period. The impact of such an evaluation approach is likely to be more serious for training measures which can take considerable time to reap the returns to the initial human capital investment.

Box 4.3. **Results of the European Globalisation Adjustment Fund (EGF) package offered to Volvo Cars workers are disappointing**

In 2008, the Swedish Government received funds from the European Globalisation Adjustment Fund (EGF) in order to be able to offer retraining measures in addition to the regular tools of labour market policy to reintegrate redundant workers into the labour market. The project (which ended in 2011) targeted more than 5 700 workers laid-off from Volvo Cars AB and its subcontractors. The following measures were proposed as part of the EGF package: i) in-depth advice and counselling tailored to individual needs over and beyond the standard provisions; ii) a wider range of training opportunities for a longer period for new competence in new jobs; iii) entrepreneurship promotion for participants who wished to start-up their own business; iv) aid for self-employment to participants preparing to start a new business e.g. training in laws governing business and taxation; and v) preparatory training necessary for participants to take part in more advanced upskilling measures.

A recent evaluation by the Swedish National Audit Office by comparing the project participants' actual return to work with a matched control group who did not receive support shows that the EGF package had limited effect. Many factors can explain the poor outcomes. For instance, there was a long waiting period before the training started which added to the longer unemployment spells. The average waiting time for each individual was 144 days. There is also a strong correlation between the length of training and subsequent unemployment: the longer the training, the longer the period of unemployment after training had been completed. The average project participant spent over 200 days in education and was unemployed for more than 400 days after the training was completed (Swedish National Audit Office, 2015).

Source: Swedish National Audit Office (2015), "Training support for persons given redundancy notices at Volvo Cars – Retrained for work?", Audit report Summary (RiR 2015:01), 9 February, http://www.riksrevisionen.se/PageFiles/21166/summary_2015_1.pdf.

International and Swedish evaluations tracking employment outcomes for a longer 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. Such positive findings for the general unemployed are also found in the very few rigorous evaluations of labour market policies for displaced workers. Ohlsson and Storrie (2007) compare the labour market outcomes of workers displaced from the LKAB

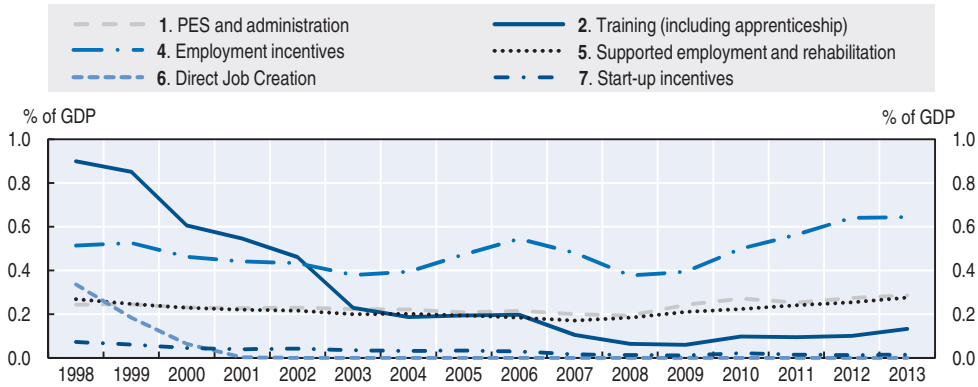
iron ore mines and the Uddevalla Shipyard, both of which were the object of extraordinary ALMPs, with other workers displaced due to a plant closure who did not receive these extra ALMPs. There was no evidence of the ALMPs having any significant short-term effect. However, after five to seven years, significant policy effects emerged in terms of higher employment rates and higher earnings than in the comparison group. Another European study also confirms these long-terms effects: Winter-Ebmer (2006) finds relatively large positive effects five years after participation in special ALMP programme for displaced steel workers in Austria. Evidence from the United States, looking at earnings of permanently laid-off workers between 1990 and 1994 in the Washington State, showed that an academic year of community-college training was associated with a long-term earnings gain of about 10% in the case of quantitative and technically-oriented vocational courses but only about 3%-5% for other courses (Jacobson et al., 2005).

These findings suggest that policy efforts must be extensive and include a much broader orientation, possibly including general schooling for displaced workers and not only narrow labour market training. Basic human capital provision was a special feature of the training packages offered to displaced workers in all three of the studies discussed above. These might be particularly helpful for older workers and low-skilled displaced workers with limited formal schooling (Stenberg et al., 2014; and Stenberg, 2011). Furthermore, Ohlsson and Storrie (2007) argue that the lack of short-term effects of policy interventions indicate that the quick fix through a limited set of new job skills is not sufficient to compensate for the loss of firm-specific human capital that may have been built up over many years. Training in general skills could also be useful to maintain or increase the employability of displaced workers when labour demand is low and large segments of the economy are restructuring at the same time, as was the case in the recent downturn, even though the effects on subsequent employment rates are possibly weaker (European Commission, 2013).

Over time, the Swedish activation stance for the most disadvantaged groups of workers including the long-term unemployed and those assigned to early interventions has gradually shifted towards intensified matching measures such as coaching and guidance as well as employment incentives, while the provision of programmes and training has lost in importance (Figure 4.4). The large decline in training-related activities during the decade until 2009 – when Sweden increased ALMPs spending again to respond to the global financial crisis – has been attributed to a number of policy evaluations demonstrating that training has been an ineffective instrument in helping unemployed people into new jobs (Forslund and Krueger, 2010).

Figure 4.4. **Public spending on training programmes has declined massively**

Expenditure on ALMPs in Sweden from 1998 to 2013, percentage of GDP



Source: *OECD/Eurostat Labour Market Programme Database*, http://dx.doi.org/10.1787/data-00312-en.

StatLink http://dx.doi.org/10.1787/888933288880

Data on the number of displaced workers enrolled in PES training programmes are not available. However, administrative data collected by JSCs show that the share of displaced workers enrolled in PES-related training is likely to be low. According to a recent report by TSL, lack of access for blue-collar workers to education and training is the biggest obstacle to re-employment for about 10% of all displaced workers. At 2.3%, the percentage of TSL affiliates receiving training is much lower than this. Moreover, the training TSL affiliates receive is provided by the PES and not always considered sufficient and adequate to help to re-motivate and re-skill displaced workers (TSL, 2015).

Against the more positive evaluations showing long-term impact of training, the government should consider increasing PES spending to help the more disadvantaged group of displaced workers. The type of training also matters with sufficient attention paid to basic education etc. as done in previous occasions in Sweden in the 1990s. Pilot programmes targeted at displaced workers should be initiated prior to making permanent increases in training related expenditure.

Developing an assessment tool for skills validation

Beyond labour market training, concerted efforts should also be made to adapt the firm-specific skills of displaced workers to become marketable on the external labour market. Many displaced workers may have the right skills, but since they have acquired them on the job without formal training,

they may not always be documented in formalised certificates. Skills validation or so-called Recognition of Prior Learning (RPL) is increasingly recognised as a means of facilitating more transparency and flexibility on the labour market; ensuring a better supply of knowledge and competencies for companies; and providing marginalised groups, such as long-term unemployed people, with an opportunity to re-enter the labour market (Diedrich and Walter, 2006).

In Sweden there has been a strong emphasis recently on RPL as a way to obtain upper-secondary school certificates; however, ways to make non-formal and informal workplace learning more visible and recognisable are less developed (Berglund and Andersson, 2012). A number of sector organisations have developed validation models related to their specific sector and occupations within it. At present, some 25 sector models encompass more than 140 different jobs and occupations (Westas, 2013). However, no national regulation currently exists on validation of non-formal and informal learning. Thus responsibility for validation is heavily decentralised to the local and regional level. It is largely based on project-based local government validation initiatives and involves many different actors though the PES and the Swedish National Commission on Validation play a major co-ordinating role. The devolved structure comes with some benefits including a system of validation that it is adjusted to meet local labour market conditions. However, it also means that the skills and experiences may only be locally recognised and not acknowledged on the labour market more generally.

A general challenge is the division of roles and responsibilities in the validation process. For a majority of individuals who need to have their skills, knowledge and competences within a certain industry or trade acknowledged, referral to skills validation is done through the PES. Validation is conducted by external validation specialists who are often affiliated with one of the sector organisations. Whether an individual should gain from going through a validation process or not requires special skills or tools. However, the PES is badly equipped to systematically screen and identify a jobseeker's skills and experiences and the resulting job opportunities for displaced workers. Going forward, a skills assessment tool should be developed to verify whether displaced workers would gain from going through a validation process. This tool should be developed together with and shared between JSCs and the PES since the former have close contact with the displaced worker early on and are better connected with employers to involve them in the certification process.

Conclusions

Well-designed early intervention policies can make a huge difference in lowering the number of displaced workers and the costs they bear. 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 actively help workers find a new job, to take advantage of existing networks and to utilise their skills.

Overall, JSCs are very successful in finding new jobs for workers who are notified of dismissals. However, success is not translated to the same extent to all displaced workers excluding especially those with temporary and fixed-term contracts. This group includes many youth and other vulnerable groups who are already penalised by the strong insider-outsider system and more likely to be dismissed first. Moreover, many of those who qualify for JSCs support receive only partial services, especially blue-collar workers. The current system 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. A first major challenge is to expand JSC services to all displaced workers including those with temporary and fixed-term contracts. In addition, there is a need to improve co-ordination between JSCs and the PES at an early stage, not only for large-scale redundancies, and to increase resources for blue-collar workers in order to meet their skills and training needs.

More generally, some JSCs do better than others and offer a broader set of services than others. The Early Risk Service offered by TRR, for example, should be offered more generally by all JSCs to assure an equal starting position. Similarly, the TSL in particular will have to take steps to assure better service quality by all their providers. This will require systematic service quality and outcome monitoring and a system that assures that only the bet providers stay in the market.

Another challenge is to improve PES operations, as the PES remains an important actor for a number of displaced workers but fails to deliver timely and tailored support to many of them. Intensive employment support comes in too late, usually only after one year, and is generally reserved for the most disadvantaged groups in the labour market. The recently developed statistical profiling tool should be further improved and include indicators to recognise specific needs of displaced workers. In addition, more focus should be put by the PES on early skills validation to identify unemployed facing barriers in selling their often rich but non-recognised skills accumulated on the job on the labour market.

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

Notes

1. Some specific examples of these activities are workshops on LinkedIn, or about how to best prepare a resume.
2. When an employee has been notified of dismissal because of redundancy, both the employee and the employer apply to the JSC for adjustment assistance. Once the application is approved, the employee and the company receive confirmation and information about the personal adviser.
3. Similarly to the TRR case, 89% of the civil servant workers appear very satisfied with the activities, programmes and seminars provided by their JSC.

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Chapter 5

Income support for displaced workers in Sweden

Although most displaced workers in Sweden find a new job quickly, providing adequate income support to workers following displacement is crucial, especially when the economy is weak and job growth limited. A good income support system should help to compensate the major costs borne by workers following job displacement without reducing their incentives to move quickly into new jobs. This chapter examines the different sources of income support available to displaced workers in Sweden and to unemployed people in general, with particular attention to the coverage and generosity of the support for displaced workers. Overall, displaced workers with stable work histories have relatively good access to income support through both unemployment insurance and supplementary top-up schemes. The main challenge is to strengthen financial provision for more vulnerable groups of displaced workers such as younger workers with short tenure and blue-collar workers.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Despite generally high re-employment rates after displacement, many displaced workers in Sweden spend at least some time out of work after being displaced and, as a result, suffer income losses. Sweden has long been characterised as providing a high level of income support for the unemployed, including displaced workers. However, already before the recent economic downturn several reforms have focused on tightening the scheme by both reducing the payment duration and reviewing the terms of eligibility to unemployment benefit.

This chapter gives an overview of the main sources of income support available to displaced workers. These include: unemployment insurance; supplementary compensation provided by the Job Security Councils; occasional complementary payments for members of a trade union; and severance payments provided by private firms in certain cases. The chapter particularly looks at the coverage rates and the generosity of public income support, to assess the adequacy of the total income support available to displaced workers.

Unemployment insurance and other sources of income support

This section describes the most important sources of income support available for displaced and other unemployed workers.

The Swedish unemployment insurance

The main source of temporary income support for displaced workers and all other unemployed is unemployment insurance (UI). This consists of two components: a mandatory basic assistance scheme and a voluntary income-related scheme for those who are members of an Unemployment Insurance Fund (UIF).[1] These funds have voluntary membership and have historically close ties to the trade unions even though membership and their operations are separated.[2]

The *basic benefit* is a fixed payment based on the amount worked in the previous job by the unemployed. The basic benefit is targeted at people who are not members of a UIF or have not been members for a sufficient period of time.[3] *Income-related unemployment insurance,* on the other hand, is a benefit based on previous income; it is voluntary and presupposes membership of an UIF.

The Swedish UI system has been reshaped repeatedly during the past ten years. The most important changes occurred in 2006-07 when the government of the time, aiming at stimulating labour supply, made UI qualification requirements stricter and decreased both the compensation rate and the maximum payment level.[4] Successive Swedish Governments aimed to increase employment among unemployed people, by emphasising the role of unemployment benefit as a short-term transition measure between two jobs rather than an end in itself, but also to reduce public spending.

Eligibility

According to the Unemployment Insurance Act, to receive unemployment benefits, a worker must satisfy a set of general conditions. In particular, the unemployed must be registered as a jobseeker at the PES and actively seek for work. Additionally, some previous *work conditions* must be satisfied: the individual must have worked an average of 80 hours per month for at least six months during the past 12 months or 480 hours during a continuous period of six months.[5]

To qualify for the income-related benefit, a person must comply with both the *membership* condition and the previous *work* condition. To fulfil the *membership* condition, the person must have been a member of an UI fund for at least one year before becoming unemployed. If either the membership or the previous work condition is unfulfilled, the unemployed person only receives the basic benefit. Those who are not entitled to UI at all can receive social assistance, which is income-tested and provided by the municipalities.

Duration and level

The maximum duration of UI is 300 days, payable on a five-day week basis, and 450 days if the worker has children under age 18. After that, the benefit expires. Part-time workers are entitled to a shorter period of UI benefits (75 days). The level of compensation depends on whether the employee has worked full-time or part-time and is based on the employee's wage before unemployment, up to a ceiling above which the benefit is constant. According to the current legislation, as of October 2015:[6]

- The *basic benefit* is a fixed payment of SEK 365 (around EUR 40) per day, equivalent to SEK 94 900 per year, in cases where the worker was working full time. Part-time workers are entitled to a fraction of the benefit.
- *Income related unemployment insurance* entitles jobseekers to up to 80% of their former earnings for the first 200 days of unemployment. The following 100 days are paid at 70% of previous earnings. There is a payment ceiling of SEK 910 (equivalent to EUR 97) per day, ensuring that those who have a monthly income up to SEK 25 000 receive 80% of their income during the first 100 days of compensation, and for the remaining days of compensation the maximum payment ceiling is SEK 760 per day.[7]

Having some unemployed receiving an income-related benefit and others only the basic allowance creates significant inequalities between these two groups not only because the level of payment is very different, but

all the more so because the UI system, including the income-related part, is mainly financed by the government, i.e. by employer contributions (OECD, 2011). The new government has introduced in September 2015 a reform that has increased the payment ceiling, frozen for almost two decades, by 30%, thus better aligning the benefit with the increase in wages. This reform seems to exacerbate the already existing inequality between the two groups of insured workers – those entitled to basic benefit only and those entitled to an income-related benefit.

Financing

The Swedish unemployment insurance system is financed by two sources: through tax-financed grants received from the government, derived from employers' labour market contributions, and through funding received from Unemployment Insurance Funds, which are derived from membership fees.

Unemployment insurance benefit top-ups through collective agreements

Many displaced workers, after having been dismissed, on top of the UI benefit, will receive other forms of extra-income paid by the Job Security Councils (JSCs) or by their trade unions. There are three basic types of supplementary benefits in the event of unemployment that add to the UI payment: top-up schemes provided by JSCs and member insurance coverage or individual insurance policies provided by a trade union (see Box 5.1).

Box 5.1. **Supplementary insurance for loss of income through trade unions**

Besides the benefits determined by law or by agreement between employer organisations and employees, there is also an insurance coverage arranged by trade union organisations. Nearly 70% of Swedish workers belong to a union, making Sweden one of the most unionised countries in the world. For their members, unions provide special insurance policies consisting of *collective insurance* which covers all members of a trade union and *individual insurance* taken out by individual members through their trade union. According to a study by the Swedish Confederation of Professional Employees of 2012, 35 out of 51 trade unions offer their members a supplementary insurance as a part of their membership in the trade union.

- **Collective insurance** either increases the ceiling of the benefit or prolongs the period during which a benefit is paid. The duration of the benefit varies but the extent of compensation is the same as in the UI scheme: collective insurances compensate 80% of the monthly wage (between SEK 35 000 and SEK 100 000) during a period of 120 to 200 days.

Box 5.1. **Supplementary insurance for loss of income through trade unions** *(cont.)*

- **Individual insurance** provides additional coverage to UI for income above the ceiling. These insurances have a longer replacement period of 280-300 days but the replacement rate is the same as in the UI scheme (initially 80% and then 70%). These insurances are "individually" rather than collectively financed (not part of the membership).

Not all trade unions have an additional insurance fund as it can be very costly in some particular industries with a high unemployment risk (for example, IF Metall does not offer such supplementary insurance). White-collar trade unions are more likely to have their own unemployment insurance. As of September 2012, one-third of the unemployed were covered by a supplementary insurance from a trade union.

Source: Lindquist, G.S. and E. Wadensjö (2007), "Social and occupational security and labour market flexibility in Sweden: The case of unemployment compensation", *IZA Discussion Papers*, No. 2943, Institute for the Study of Labor, Bonn, http://ftp.iza.org/dp2943.pdf; Lindquist, G.S. and E. Wadensjö (2006), "National Social Insurance: Not the whole picture – Supplementary compensation in case of loss of income", Report for ESS (Expert Group on Economic Studies), Ministry of Finance, Sweden; and mission notes.

As 80% of Swedish employees are assisted by JSCs, the additional insurance policies provided by the job security agreements entitle employees who are covered by UI with extra compensation. There are four major security agreements dealing with different types of workers and stipulated with different JSCs. These agreements provide additional benefits in the event of unemployment, particularly due to economic reason. These extra payments, also called career readjustment insurances, are used to deal with redundancy problems for wage earners and companies when a work shortage arises. The career readjustment agreement means that companies allocate funds continuously for use in the event of redundancy. The redundancy payments regulated by collective agreement may come in two forms: either as a lump-sum top up or as a supplementary unemployment benefit. The four main agreements covering 75% of the employees are the following (see also Table 5.1):

1. *Civil servants working in the central government* are entitled to a top up for the entire duration of the benefit and to extended severance pay for at most five years.
2. Employees working in *municipalities and county councils* are entitled to two different kinds of supplementary unemployment benefits.
3. *White-collar workers in the private sector* (TRR) are entitled to supplementary benefits in the form of severance pay, called AGE.
4. *Blue-collar workers in the private sector* (TSL) are paid a lump sum, called AGB.[8]

Table 5.1. **Job Security Councils' benefit top-up schemes in Sweden**

Description of the main top-up schemes: Responsible body, coverage, qualifying criteria and level of payment

Council	Coverage	Qualifying conditions	Top –up scheme
Job Security Foundation (TSN *Trygghetsstiftelsen*)	Public sector: Government employees	• Workers with permanent employment for at least one year and dismissed for redundancy, or • Workers with temporary employment during three of the last four years and not being offered continuous employment.	**Top-up payment** equivalent to the amount that together with the income-related unemployment insurance makes up to 80% of the wage in the first 200 days and 70% in the following 100 days.
Transition Fund (*Omställningsfonden*)	Public sector: Employees within local authorities and regions	• Workers with permanent employment during the last four years, dismissed for redundancy who worked at least 40% of time and are under 65 years old at employment termination.	**Top-up payment** as above, *plus* **Extra lump-sum payment** when the period of the benefit from the UI is finished.
TRR *Trygghetsrådet*	Private sector: White-collar workers	• Workers dismissed for redundancy who have worked for at least five years at a TRR-affiliated company, had a salary of at least SEK 21 100 and are older than 40 years old.	**AGE redundancy pay** Benefit level of 70% of the monthly wage together with the public income-related benefit for the first 130 days (six months), after which it decreases to 50%. • Additional 130 days are given to workers aged 45-59, • Additional 260 days are given to workers aged 60-65.
TSL Employment Security Fund	Private sector: Blue-collar workers	• Workers with permanent employment, dismissed for redundancy, who worked at least 50 months in a period of five years at a TSL-affiliated company and are aged 40-65 year-old when dismissed.	**AGB – Career readjustment insurance** The lump-sum top-up is SEK 30 700 for 2014. Those who have turned 50 receive a further SEK 1 300, those who have turned 51 a further SEK 2 600 and so on up to the age of 60. The maximum amount is SEK 45 000 for people aged 60-65.

Source: OECD elaboration based on information collected during the OECD fact-finding mission to Sweden in September 2014; and Lindquist, G.S. and E. Wadensjö (2007), "Social and occupational security and labour market flexibility in Sweden: The case of unemployment compensation", *IZA Discussion Papers*, No. 2943, Institute for the Study of Labor, Bonn, http://ftp.iza.org/dp2943.pdf.

Non-statutory severance pay as a source of income for displaced workers

Severance payments are not mandated by law when dismissing workers. However, employers, especially larger firms, may offer severance payments in their negotiations with the trade unions, typically in exchange for deviations to provisions of the labour law (LIFO rule). The offer of additional severance pay is a common request from the unions while negotiating large-scale restructuring processes and firms are inclined to pay in order to prevent disputes. While there are no reliable and available data on the incidence of severance payment in Swedish firms, anecdotal evidence suggests that it is quite common for large firms to offer attractive retirement packages with additional severance pay (see Box 5.2 for an example of retirement packages offered by AstraZeneca).

Box 5.2. **Golden redundancy packages: The case of AstraZeneca**

During the period 2006-12 it was very common for AstraZeneca and other big corporations in Sweden in need of downsizing, to use voluntary or compulsory retirement packages to dismiss employees. When AstraZeneca started its restructuring process in 2005, the company together with the trade unions agreed on procedures and conditions to handle the restructuring in a more flexible way. Specifically, redundancy packages to be offered to employees whose employment was going to be terminated were at the centre of formal negotiations with both the trade unions and the Job Security Councils.

AstraZeneca offered two types of packages, for blue- and white-collar workers, respectively. While both packages contained professional support for future careers and financial support for the transition period in the form of severance pay or additional income support, substantial differences emerge between and within groups of workers in the size of the severance pay (see the table below for an illustration of the differences between the packages).

- The **Compulsory Redundancy Package** for *white-collar* workers – also called "Golden package". This generous package was offering a work free notice period and a severance pay, paid either as a lump sum or as a monthly payment, depending on age and on employee's tenure. The work free notice period was between 1 and 12 months, and the severance pay at full salary could be for a period from 4 to 10.5 months. Thus, the total number of months at full pay that an employee would receive could range between five months (for a worker with less than two years of tenure) and 22.5 months (for a worker aged 55 or older, with ten or more years of tenure).

- The **Voluntary Redundancy Package** for *blue-collar* workers. Also in this case the employer, in addition to a work free notice period going from four to six months depending on the workers' tenure, was offering a severance payment of SEK 100 000, paid as a lump sum. An additional severance payment for income support was paid, for three to nine months, depending on previous years of employment.

Box 5.2. **Golden redundancy packages: The case of AstraZeneca** *(cont.)*

Golden redundancy packages offered by AstraZeneca

	White-collar workers			Blue-collar workers			
Job tenure (years)	Notice period	Severance pay (Months)	Total	Notice period	Severance pay (Months)	Total	Extra lump sum (SEK)
Up to 2 years	1	4	6	4	3	7	100 000
At least 2 years but less than 4 years	2	4	6	6	6	12	100 000
At least 4 years but less than 6 years	3	5.25	8.25	6	6	12	100 000
At least 6 years but less than 8 years	4	7	11	6	6	12	100 000
At least 8 years but less than 10 years	5	8.75	13.75	6	9	15	100 000
10 years or more	6	10.5	16.5	6	9	15	100 000
10 years or more (and 55 years or older)	12	10.5	22.5	6	9	15	100 000

Source: Information provided by AstraZeneca during the OECD fact-finding mission to Sweden in September 2014.

StatLink http://dx.doi.org/10.1787/888933288961

By contrast, small- and medium-sized firms do not often pay severance pay or offer special packages to induce voluntary separation or retirement instead of dismissals. Since non-statutory severance pay is offered mainly to workers with some tenure, it probably provides an additional layer of income support only to workers who are likely to be covered already by other forms of support. Since its purpose is similar to that of UI, i.e. providing income support to unemployed workers, the government has reasonably imposed the rule that the entitlement to severance payment delays the recipiency of UI benefits for displaced workers.[9]

Benefit coverage for unemployed and displaced Swedish workers

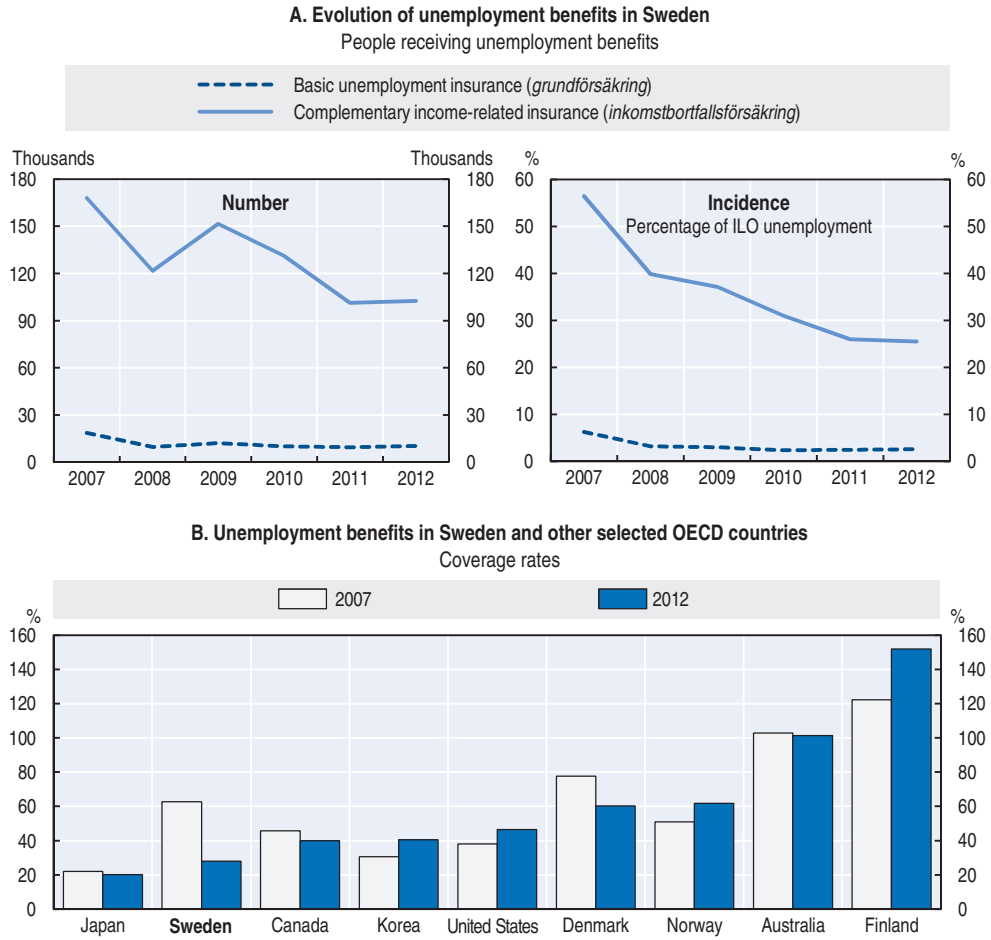
This section provides an assessment of how many unemployed displaced workers access the unemployment insurance and, in general, how much income support they receive. Due to a lack of specific data on displaced workers, the evidence discussed refers to all people becoming unemployed in Sweden.

Unemployment insurance benefit coverage has been declining over time…

In Sweden, the ratio of the number of people receiving UI to the number of workers classified as unemployed, commonly referred to as the pseudo-coverage rate, averaged 0.28 in 2012 in administrative registers. This coverage rate has seen a gradual long-term decline which accelerated with the 2007 UI reform. Since then, the share of the unemployed covered by UI has been shrinking very fast, partly because of the stricter eligibility criteria and the increase in part-time and temporary jobs (Figure 5.1, Panels A and B). The total number of people receiving unemployment benefits (basic benefit and complementary income-related insurance benefit) has decreased from 180 000 in 2007 to 110 000 in 2012. The UI coverage rate thereby dropped from two-thirds of the unemployed population to less than one-third. The percentage of unemployed people receiving the basic benefit is still very low (2.6% in 2012) but has after 2008 to 2012, reflecting the slight decrease in UI funds membership that followed the UI reform in 2007.

The degree of UI coverage in Sweden is low compared with other Nordic countries such as Denmark and Norway, where coverage rates are much higher or even close to universal, as in Finland (Figure 5.1, Panel B). An important reason for the low coverage rate in Sweden is the change in the composition of unemployed: today, a much larger share of unemployed people has no or limited labour market experience, in particular youth, workers with a low level of education and newly-arrived immigrants. Many of those people who do not or no longer qualify for UI benefits can participate in special labour market programmes and receive a non-contributory activity grant during this period.[10] This development has led to a continuous increase in the share of the unemployed people covered by system of social protection other than UI: social assistance (see OECD, 2012), youth guarantee for young unemployed (up to age 25), and activity support. The number of working-age people relying on social assistance increased from 650 000 in 2007 (10.8% of the working-age population) to over 850 000 in 2012 (14.3%). The number of youth on youth guarantee has increased since its introduction in 2008 from 31 820 (1.8% of the youth aged 15-29) to 99 133 in 2012 (5.4% of the youth aged 15-29).[11] The number of long-term unemployed on activity support has increased from 45 100 in 2005 to 108 500 in 2013.[12]

Figure 5.1. **Unemployment insurance benefit coverage has dropped and is now very low in Sweden**



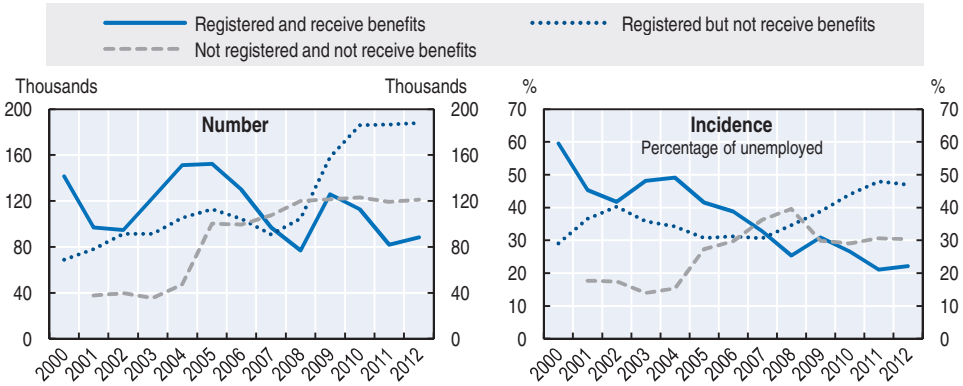
Source: OECD estimates based on administrative data, and OECD (2015), "Labour: Labour market statistics", *Main Economic Indicators* (database), http://dx.doi.org/10.1787/data-00046-en for Panel A; and *OECD Tax-Benefit Models*, www.oecd.org/els/social/workincentives for Panel B.

StatLink http://dx.doi.org/10.1787/888933288899

The picture on the low and falling unemployment benefit coverage rates is confirmed by EULFS data.[13] The percentage of unemployed registered at the PES and actually receiving UI has dropped from 60% in 2000 to just over 20% in 2012 (Figure 5.2).[14]

Figure 5.2. **Fewer Swedish unemployed people are receiving unemployment benefits, despite being registered with the PES**

Unemployed aged 15-64



Source: OECD estimates based on European Union Labour Force Survey (EULFS) data.

StatLink http://dx.doi.org/10.1787/888933288906

The amendments to the UI system in 2007 also included an increase in membership fees to the UIF.[15] This increase in membership fees in a country with state-subsidised union unemployment funds, automatically meant an increase of the total fee to be paid by a worker to the union and the UIF and, in turn, led to a sharp decline in union density and to a loss of members from the unemployment funds. Between January and May 2007 alone, 242 000 members left the unemployment funds – roughly 6% of all members (IAF, 2007; and Lindquist and Wadensjö, 2007) and unions lost 8% of all active union members (Kjellberg, 2011).[16]

The decline in UIF membership has created issues of adverse selection, meaning that groups with low risk of unemployment choose not to be members of UIFs, thus sorting people with high risk of unemployment into the system. This could, sooner or later, create problems for the financial stability and sustainability of the funds. The trend decline also creates legitimacy issues for the UI scheme and increasing inequities in an unemployment benefit system that is funded predominantly from general taxation: thereby every tax payer contributes to the system but only some people benefit from it.

With so many people having dropped out from the system, voluntarily or involuntarily, issues of inequality have further increased between *insiders* (people who qualify for UI benefits) and *outsiders* (people who do not, or no longer, qualify for UI and who possibly end up on social assistance or

other benefits). Those who are entitled to UI benefit are generally closer to the labour market and at the same time more likely to receive effective support. Unemployed people who are further away from the labour market are more likely to depend on welfare benefits, with a lower incentive to find a (new) job. As a result, the risk of labour market exclusion for poorly integrated groups such as migrants, youth, and workers on temporary jobs has increased. This is confirmed by the observation that the decline in UI coverage has gone hand-in-hand with an increase in the poverty risk for unemployed people in Sweden. According to Eurostat data, the poverty risk for unemployed people has increased in Sweden from 9.4% in 2007 to a peak of 19% in 2009, to stabilise at 15% in 2014, while it has remained more or less stable for employed people (Figure 5.3).[17]

Figure 5.3. **The risk of falling into poverty is increasing in Sweden for unemployed people**

Percentage of population at risk of poverty

Note: Poverty risk rates for the unemployed, employed and total population for the age range 16-64. The cut-off point used for the risk of poverty is 40% of median equivalised income after social transfers.

Source: OECD calculations based on Eurostat data.

StatLink http://dx.doi.org/10.1787/888933288913

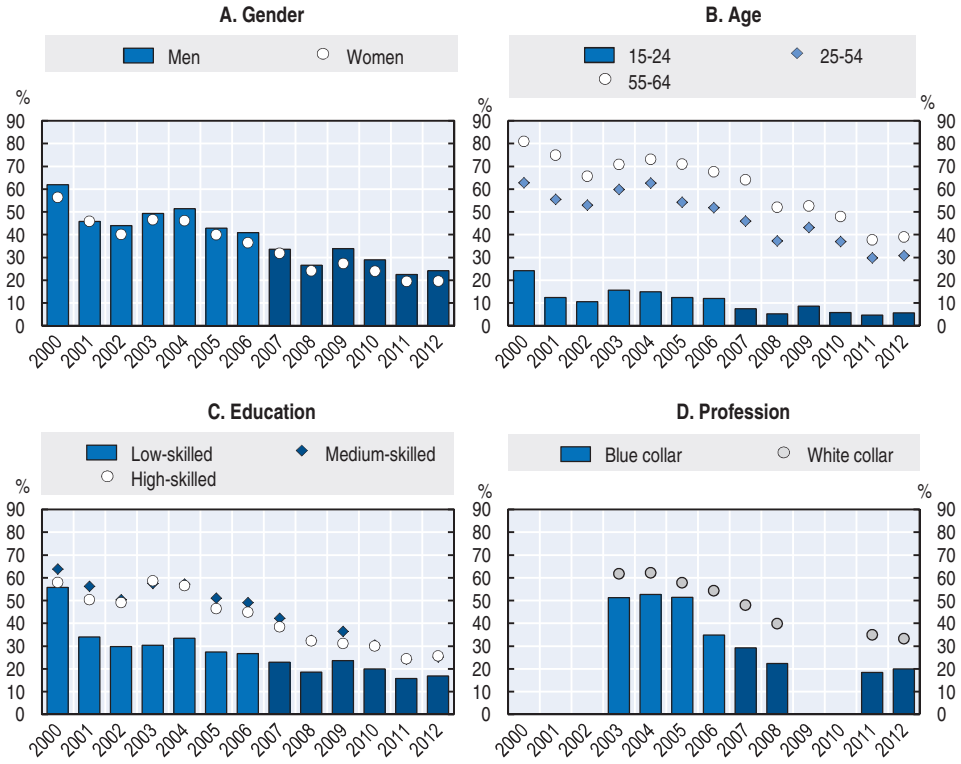
Coverage rates differ across different groups of workers

The fact that UI recipients receive more generous income support than the other unemployed is not the only issue the Swedish social protection system faces. Coverage rates also differ across different types of workers thereby further increasing inequalities and creating gaps of support for specific groups. Younger workers in Sweden are much less likely to qualify for UI than prime-age and older workers: Only 6% of the unemployed under the age of 25

qualifies for UI (although they might qualify for the youth guarantee) compared with 31% of prime-age workers aged 25-54, and 39% of workers aged 55-64 years. Similarly, coverage rates for low-skilled workers are much lower than for middle- and high-skilled workers, respectively, 16% compared with 26% (Figure 5.4). Low coverage rates for young and prime-age low-skilled workers can be problematic as, according to the LIFO rule and the descriptive evidence shown in Chapter 1, these workers are much likely to be displaced in case of restructuring or downsizing.

Figure 5.4. **Unemployment benefit coverage rates vary strongly by the workers' personal characteristics**

Percentage of declared status, unemployed aged 15-64



Source: OECD estimates based on European Union Labour Force Survey (EULFS) data.

StatLink http://dx.doi.org/10.1787/888933288927

Coverage rates also differ according to professional category. In 2012, one in three white-collar workers was covered by public UI benefits but

only one in five blue-collar workers. Blue-collar workers experienced a larger coverage drop after the 2006/07 reform, down from a coverage rate of 50% in 2005. This suggests that the nature of the recent reforms had a larger detrimental impact on blue-collar workers, exacerbating the already existent disparities because many white-collar workers can also benefit from both more generous income-related UI benefit and complementary top-up insurance offered by the JSCs.

In 2008, the then government more closely linked UIF membership fees to the unemployment rate for each fund, thereby differentiating fund fees for different groups of employees. With the economic crisis hitting blue-collar workers harder than other employees, social polarisation of UIF fees widened considerably with an increase in blue-collar worker fees by SEK 155 to SEK 325 per month compared with only SEK 0 to SEK 65 for white-collar worker funds.[18] As a result, total union membership fees also became more differentiated. This translated into a much stronger decline in union membership for blue- than for white-collar workers: from 2006 to 2010, union membership rates fell by 11 percentage points for blue-collar workers but only by 2 percentage points for white-collar workers (Kjellberg, 2013).

Despite the lack of specific data on displaced workers for any of these trends and indicators, it is reasonable to assume that the majority of the reference group of this report is initially eligible for UI. The one-year tenure condition imposed in the definition of displaced workers used in this report should make it likely that these workers once displaced satisfy the *work condition* required by law. However, while Swedish displaced workers with stable work histories still seem to have relatively good access to income support through UI, this is not the case for young and low-skilled displaced workers. Unemployed and displaced workers only entitled to (means-tested) social assistance tend to receive much less income support than those on UI, if any, although this will depend on a range of parameters including household composition and income from other household members. Overall, however, they are more likely to be exposed to the risk of poverty (see Figure 5.3 above). As suggested by OECD (2012), to ensure that a larger share of unemployed Swedish workers receive UI benefits, the work condition should be eased and the coverage of UI should be extended, potentially by making contributions to income-related UI mandatory. In parallel, job-search obligations and the PES's power of sanctions for not fulfilling these obligations will have to be strengthened further for those eligible to UI benefit. Given the entrenched unionisation and the tradition of a state-subsidised voluntary UI system in Sweden (i.e. the Ghent system), it might be difficult to reach a democratic agreement on compulsory income-related insurance. A first step towards such a mandatory contribution to an UIF could be the introduction of an opt-out system

whereby employees are automatically enrolled in the appropriate UI scheme but have the possibility to opt out if they wish to do so.

Generosity of the Swedish unemployment insurance

UI in Sweden is the main source of public income support for displaced workers, despite the declining coverage rates. This section assesses the effective degree of income support that displaced workers receive from the UI system. While the available data are incomplete, a number of useful insights can be gained.

Unemployment benefits are adequate for those receiving them

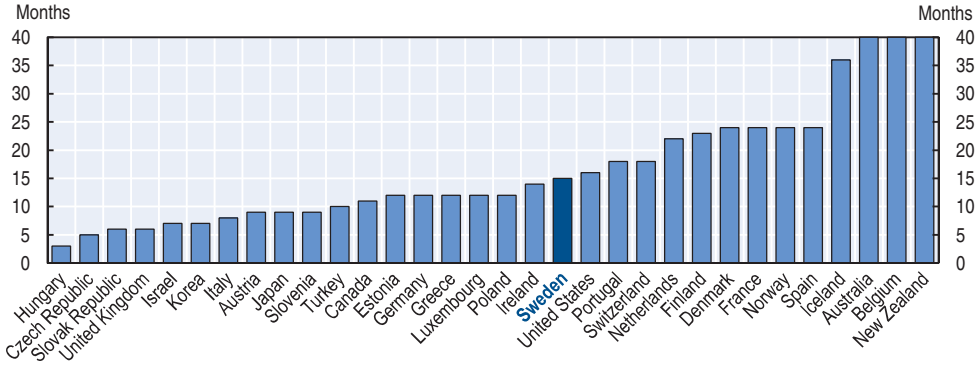
The *OECD Wages and Benefits Database* (OECD, 2014) provides internationally harmonised comparisons of the generosity of unemployment benefits which supply a useful benchmark for measuring the adequacy of the income support that displaced workers receive from the UI system. Benefit generosity relates to both the payment duration, should the worker experience a longer spell of unemployment, and the amount of the weekly benefit relative to previous earnings. This section compares the situation in July 2012 for a 40-year-old displaced worker with 22 years of continuous, covered employment (reflecting continuous employment since age 18) when the dismissal occurred.

In Sweden, such a displaced worker is entitled to 300 days of benefit payment, which converts into 15 months. This is around the OECD average – approximately 14 to 18 months, depending on whether or not indefinite payment schemes are included – but much lower than in the other Nordic countries (Figure 5.5). These comparisons would differ for different worker profiles and do not reflect temporary extensions to the maximum payment duration temporarily introduced in some OECD countries in response to the global financial crisis but not in effect anymore in mid-2012.

Displaced workers in Sweden obtaining UI receive on average almost 60% of their previous average wage. However, this average replacement rate refers to workers affiliated with a UI fund who receive a benefit initially equal to 80% of the previous wage up to a ceiling (which is but falling slightly over time). Those who are not affiliated receive a constant basic allowance equal to 25% of the average wage (see OECD, 2012).

Figure 5.5. **Unemployment benefit payment duration in Sweden is around the OECD average**

Maximum payment duration for unemployed benefit, in months, OECD countries, 2012



Note: Maximum benefit durations for a 40-year-old displaced worker with 22 years of contributions (continuous employment since age 18). No duration limit for Australia, Belgium and New Zealand (shown as 40 months).

Source: OECD Tax-Benefit Models, www.oecd.org/els/social/workincentives.

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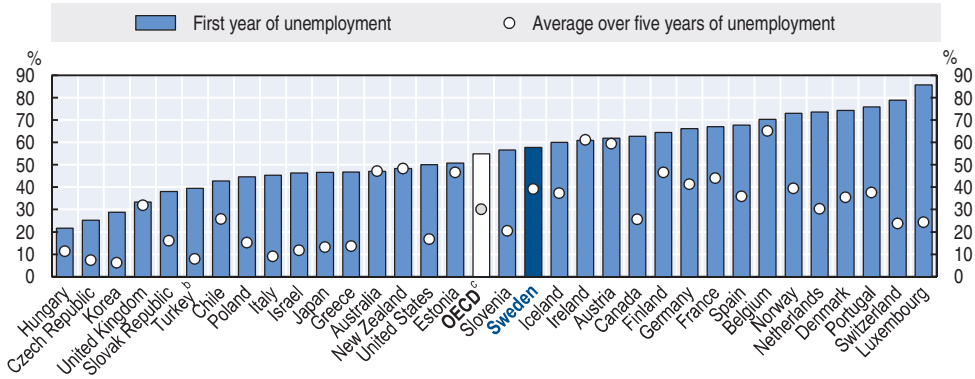
The net replacement rate (NRR) gives an indication of the generosity of unemployment benefits reflecting the combined impact on the disposable income of the workers family. The first-year NRR is an average of the generosity for each of the first 12 months of unemployment and the five-year rate an average over 60 months of unemployment.

Swedish unemployment benefits, measured in this way, are initially in line with the OECD average (Figure 5.6). Although the NRR for the first year of an unemployment spell in Sweden has decreased over time, from around 80% in 2001 to 57% in 2012, it stays well in line with the OECD average of 55%. The income support for long-term unemployed in Sweden is comparatively high, at almost 40%, significantly above the OECD average of 30%. This suggests that the minority of Swedish displaced workers who do not find a new job quickly can in many cases benefit from adequate income support provided by the government.

Figure 5.6. **Unemployment benefits in Sweden replace around 60% of previous earnings**

Net replacement rate[a] of unemployment benefits:
Synthetic average for four family types and two earnings levels (2012)



Note: APW: Average production worker; AW: Average worker.

a) The net replacement rate is the ratio of net income while out of work to net income while in work. Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. It is assumed that no additional social assistance or housing-related benefits are available as income top-ups for low-income families. Family benefits are included in the calculation. Entitlements to severance payments are not accounted for. Net replacement rates are calculated for a prime-age worker (aged 40) with a long and uninterrupted employment record. The first-year and five-year net replacement rates are averages over 12 months and 60 months, respectively; as well as over four different stylised family types (single- and two-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings.

b) AW value is not available. Calculations are based on APW.

c) Unweighted averages of the 33 OECD countries shown in the chart above.

Source: OECD Tax-Benefit Models, www.oecd.org/els/social/workincentives.

StatLink http://dx.doi.org/10.1787/888933288948

Supplementary insurance schemes are generous

In the discussion of unemployment benefit generosity and adequacy it is important to take into account that UI is not the sole benefit displaced workers in Sweden can receive. The total level of compensation a displaced worker receives often differs from the one provided by UI alone. First, by law, when required by collective agreements, employers are required to pay to displaced workers the wage for a certain period after the notification

of dismissal, even if no work has to be performed (see Chapters 2 and 3). Secondly, there is the need to consider other forms of supplementary income insurances paid directly by the JSCs or the trade unions.

According to the eligibility requirements and the structure of the top-up schemes, it seems to be the case that some groups of displaced workers receive very high income support while unemployed. At the same time, some disparities across age groups and type of workers emerge. It is evident that, except for workers in the public sector, the top-up schemes provided by the JSC apply only to prime age and older workers, thus leaving youth and workers with less stable employment without any supplementary scheme. A remarkable contrast emerges from the comparison of blue and white-collar workers. Despite receiving similar transition and re-employment services from both the PES and the JSCs, white-collar workers generally receive significantly more extra support (see also Chapter 4).

While it is true that long-tenured workers who lose jobs in mass layoffs experience large and persistent earnings losses compared to otherwise similar workers who retain their jobs and to other displaced workers, these workers tend to receive more income support. On the other hand, the lack of income support for other groups of displaced workers, namely young and low skilled workers, can lead them to accept poorly-matched jobs, as shown in Chapter 1.

Is the generosity of income support a disincentive for re-employment?

Although it makes sense to provide displaced workers with additional income support to minimise individual wage losses associated with the restructuring process, it is important not to provide disincentives to seek a new job. Basic search theory suggests that both the level and the duration of the unemployment benefit affect the duration of the unemployment spell. High benefits lead to high reservation wages, thus to a longer period spent in unemployment because offers with too low wages are rejected by the jobseeker. The probability to accept a job increases towards the end of the search period, when the reservation wage declines and the benefit period is about to elapse.[19] The main question is thus to understand how much the higher payments influence the duration of the unemployment spell and the intensity of job search. Particularly, the relatively long qualifying periods needed to obtain the supplementary insurance offered by the JSCs or trade unions can create locking-in effects, reducing the transition rate out of unemployment while individuals receive supplementary benefit and increasing once it has elapsed. According to the extremely high re-employment rates found for displaced workers, however, this seems to be a minor issue in Sweden.

The quite high strictness of activation for the eligibility to UI may have offset the locking-in risk. OECD (2015) and Langenbucher (2015) provide information on the strictness of eligibility criteria for unemployment insurance schemes in different OECD countries. In terms of strictness of availability requirements and suitable work criteria, Sweden ranks among the strictest countries in the OECD as jobseekers must remain available and actively looking for work and the PES is in charge of monitoring job-search efforts. Similarly, Sweden appears to have a high ranking also in the strictness of job-search requirements and monitoring due to the provision to monitor job-search efforts on a monthly basis. This combined with the effectiveness of re-employment services offered by both the JSCs and the PES can explain the very high re-employment rates of displaced workers in Sweden.

Conclusions

The income support system in Sweden is well developed in principle but surprisingly little is known about how well different groups of unemployed and displaced workers are covered. In addition to payments from the public UI scheme, displaced workers can receive payments from their JSCs or trade unions to top-up their UI entitlement. Some older displaced workers working in larger corporations can also receive quite generous severance payments which would postpone the recipiency of UI. But, there are no data available currently on either the number of displaced workers receiving severance pay or the number of unemployed workers receiving top-up payments.

The UI pseudo-coverage rate – the number of UI beneficiaries (based on administrative data) over the number of unemployed people (as measured by the labour force survey) – has been declining for a long time and especially so in the past ten years. By 2012, it had declined to 28% on average. This decline has been partially softened by other support schemes, some of them introduced only recently, targeted at specific groups of unemployed, such as the activity support which many long-term unemployed people may qualify for. However, still remarkable differences exist among different groups of workers in the extent to which they are supported in non-work periods. Displaced workers are likely to have higher UI coverage rates overall, especially if they are older than 40 years. It is plausible to assume that the large majority of them will be entitled to UI and many of them to top-up insurance as well.

The generosity of the Swedish UI system is quite satisfactory for those who are eligible: it replaces almost 60% of a beneficiary's previous average wage. For displaced workers also eligible for top-up insurance, the replacement rate is likely to be close to 80%. However, the decline in UI coverage has gone hand-in-hand with a sharp increase in the number of social assistance recipients and also a rise in the poverty risk among unemployed people in Sweden.

Despite partial evidence, two policy conclusions can be drawn. First, the benefit system seems relatively generous for many displaced workers. Second, some disparities exist, particularly between older and younger workers and between white and blue-collar workers. Long-tenured, older and white-collar workers have much better access to adequate income support. However, 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.

The most critical question for the future from the point of view of the benefit system is to provide a good safety net for all displaced workers without hampering their incentives to seek work. It will therefore be critical to broaden UI coverage assuring adequate income support to all displaced workers and all unemployed people more generally. Better entitlement to benefits, however, needs to go hand-in-hand with enhanced job-search monitoring and work incentives.

The system under the responsibility of the social partners and the JSCs also needs to be adjusted to assure that more workers can benefit from the protection and support provided. Currently, the unemployed who are furthest away from the labour market are less likely to receive effective and adequate support, and thus risk to be pushed away even further.

Notes

1. In total, there are 28 unemployment insurance funds in Sweden with slightly less than 3.5 million members; 76% of the total labour force (as of January 2015). Each fund covers specific sectors and workers and is linked to a particular trade union in the business sector; however, it these funds play no role in activation or the provision of re-employment services. All funds follow the same regulations and are supervised by the Unemployment Insurance Board (IAF), which also has a supervisory role over the Swedish PES in handling of matters that relate to unemployment insurance.

2. This type of unemployment insurance is also known as *Ghent system*, denoting a system of voluntary unemployment insurance that is subsidised by public authorities but in which trade unions (or funds linked to these

unions) provide benefits to the unemployed. Other Nordic countries, such as Denmark and Finland, with exceptionally high union density, have similar forms of voluntary unemployment insurance systems.

3. The basic benefit for non-members is provided by *Alfa Kassan*, an "independent" fund that has been introduced in 1998, thus ratifying the formal separation between trade unions and unemployment insurance. *Alfa Kassan* membership is open to workers in all sectors and occupations. Although membership has grown considerably in recent years, it is still low. Non-members of UIs have to pay an administrative fee (SEK 24) from their basic benefit to *Alfa Kassan*. Data suggest that membership rates increased from 2004 to 2007 but there is no more recent evidence. All other UIF provide the basic benefit to their members who do not fulfil the membership condition.

4. From 1 January 2007, the requirement to fulfil the working condition to get eligible for the UI, was raised from 70 to 80 hours per month for at least six months. Additionally, the ceiling was cut from SEK 730 to SEK 680 during the first 200 days and the compensation level, previously 80% during the whole benefit period, was lowered to 70% after 200 benefit days. The possibility for students to qualify for UI under certain conditions was abolished. See Lindquist and Wadensjö (2007), and Anxo and Ericsson (2011) for more details on the UI reforms.

5. This means that workers de facto must have worked at least 20 hours per week. Thus also part-time workers can be eligible to 300 days of compensation, but they are entitled to a shorter benefit payment period if partially unemployed.

6. After 300 days, jobseekers who still have not found a new job can get support through the *job and development guarantee*, where activity support is paid at 65% of previous earnings (with the same ceiling). This payment is targeted at the long-term unemployed and provided by the social insurance office; during receipt of this payment jobseekers are subject to intensified activation. The maximum duration of this programme is 450 days. Unemployed people who have participated in the *work introduction programme* or newly-arrived immigrants who have participated in activities under The Swedish Introduction Act can be eligible for the *activity support grant*.

7. The average monthly wage in Sweden in 2013 was SEK 32 666. Therefore, only around the 25% of workers with the lowest wages receive a truly income-related UI benefit. All other workers will receive the maximum UI payment and possibly a top-up benefit, if eligible.

8. Severance pay administered and paid by AFA Forsakring.

9. However, displaced workers who are temporarily ineligible for unemployment benefits may still be referred to labour market programmes, thus not risking to be left without effective re-employment support.

10. For those not entitled to unemployment benefits but enrolled in labour market programmes, the amount of the *activity grant* corresponds to the amount they would have received from the UI scheme.

11. All young people (aged 16-24) who are unemployed and have been registered as jobseekers at the PES, for a total of 90 calendar days over a time-frame of four months, are eligible to the *youth job programme*. Young people who have participated in other programmes, such as the *work life introduction* or have participated in activities under the Swedish Introduction Act, are also eligible for the *youth job programme* (Ministry of Employment).

12. Data on the activity grant for 2005, taken from Lindquist (2007) and data on the job and development guarantee are from Statistics Sweden (2014).

13. EULFS coverage rate are calculated using the ILO definition of unemployment According to the International Labour Organization (ILO) definition of unemployment, adopted by the Thirteenth International Conference of Labour Statisticians (Geneva, 1982), the unemployed comprise all persons above a specified age who during the reference period were: without work, currently available for work, and seeking work.

14. This number is lower than the administrative coverage rate because EULFS data use the ILO definition of unemployment, thus excluding partially inactive or non-active jobseekers. Additionally, the EULFS coverage rate is calculated on the 15-64 year-olds, while administrative data cover all unemployed aged 15 and over.

15. For example, IF Metall fee has increased by 33% between 2007 and 2008. The government subsequently tried to increase coverage by decreasing fees in 2009, but this was offset by the higher level of unemployment, which caused the UIFs to increase premiums again.

16. Unemployment contributions were abolished from 1 January 2014. As a result, the membership fees to the UIF were reduced. The average reduction of the membership fees corresponded to about SEK 90 per month. For the ten unemployment insurance funds that had the highest membership contributions, the reduction corresponded to about SEK 170 per month. Since then the total of members in the UIF has slowly but steadily increased.

17. These data refer to unemployed people aged 15-64 with a cut-off point for the risk of poverty defined as 40% of median equivalised income.

18. In 2008, union unemployment funds could be divided into three groups regarding the level of the fees. The group with the lowest fees included Saco and TCO, two unions dominated by white-collar workers, in particular recruiting university-educated professionals. The middle group was a mixed group – although white-collar unions made up the majority (TCO and one independent white-collar union), it also contained the two largest blue-collar unions (LO unions). The group with the highest fees was dominated by smaller blue-collar unions (Kjellberg, 2009).

19. Previous studies on UI benefits in Sweden indicate that, as the end of the 300-workday limit approaches, the transition rate from unemployment to employment increases (see Carling et al., 1996). This has been confirmed anecdotally in discussions with TRR members in September 2014. Supplementary insurance can act as a disincentive in the job search, and it appears that there is a clear difference in terms of re-employment rates before and after the first six months of AGE payment, when the compensation level drops by 50%.

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