

# THE REINFELDT INITIATIVE

*A conceptual framework for a work initiative in Europe*

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# FOREWORD

As people, we are created with the ability to work. We all have a large capacity for work, even if it does vary from person to person. Europe is currently facing major changes, with ageing populations, an economy in transition thanks to globalisation and digitalization, and large-scale migration, both within and into Europe. The big question is whether there will be work, adapted to people's different talents and available for all, during and after these changes.

One thing is clear. Europe isn't talking about this right now. Not yet. We would rather talk about something else. This report attempts to provide answers for how Europe can create the conditions for work for everyone with a desire and ability to work. For people to be able to properly do themselves justice and for inclusive communities to grow, the labour market must work for all. Those who get a job feel that their life has greater meaning, they have the opportunity to stand on their own two feet financially and they often find it easier to put their trust in other people and in society.

In Europe, the hopes of more jobs have largely been pinned on a policy of stimulating general demand. This has either meant very expansive monetary policy from the European Central Bank (ECB) and other national central banks, or stimulus from often under-financed public budget measures. Reforms to improve the functioning of the labour market have increasingly been conspicuous by their absence in recent years. Far too little has been done to encourage people to look for work or to increase their working hours. There has been no considered framework for stimulating both demand and the supply of labour. The result is too few jobs and many people

encountering difficulties in finding routes into work.

Europe has an ageing population and a lot of people are living for many years after leaving the labour market. The birth rate is too low to ensure future welfare financing and many of those coming to Europe from other countries have difficulties in finding a job and are all too often treated as being unwanted. If the policy focus in Europe does not change, an increasing number of people will find themselves without work and by extension many welfare systems will be eroded.

There are countries where reforms have been implemented that have led to increased employment, such as Sweden, Germany and the United Kingdom. It is important for us to learn from our own experiences and those of others. I also think it is vital to bring together the different policy elements to form a considered framework that is designed to get more people into work. Only then will long-term policy focus on creating a better-functioning labour market. Over eight years the centre-right Alliance coalition government in Sweden developed a Work-First Principle as part of its economic policy. The result is an increase beyond comparison in the number of private-sector jobs and it is still growing. Together with Eva Uddén Sonnegård, I have examined the different experiences to be found in Europe, and the academic analysis that have been and are being performed on many of the elements. I have summarised the conclusions in an initiative, which I presented for the first time at the London School of Economics in autumn 2015.

I have been assisted in my work by Eva Uddén Sonnegård, both in the writing and in reviewing the academic literature. She is eminently suited for such work. Mrs Uddén Sonnegård has a background at the Riksbank and in the academic world, and she has a doctorate in economics, specialising in labour market policy. She played a prominent role in renewing the labour market policy of the Swedish Moderate party ahead of the Alliance's 2006 electoral victory, and subsequently served as State Secretary in the Ministry of Employment throughout the period of intensive reforms during the Alliance's first mandate period. She was later a Minister in the Delegation of Sweden to the OECD and in this role followed and participated in the European debate and analyses of labour market policy.

It is our shared belief that there is no more pressing and difficult task than to implement the right reforms to get more people into work. This is our contribution to help achieve this.

Stockholm, June 2016

Fredrik Reinfeldt  
Prime Minister of Sweden 2006–2014

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# SUMMARY

This report presents the Reinfeldt Initiative (RI) together with an analysis of labour market policy in Europe. RI aims to create a framework for achieving a sustainable increase in the number of jobs in Europe. RI is based on 12 elements.

RI 1 – IDENTIFY THOSE OUTSIDE THE LABOUR MARKET

RI 2 – IT HAS TO BE WORTHWHILE WORKING

RI 3 – TIGHTEN UP THE BENEFIT SYSTEMS

RI 4 – STRENGTHEN THE LABOUR FORCE

RI 5 – ALL JOBS ARE NEEDED

RI 6 – EXTEND THE WORKING LIFE

RI 7 – ENCOURAGE OLDER PEOPLE TO CONTINUE WORKING

RI 8 – RESKILLING AND ADJUSTING

RI 9 – IMMIGRANT WORKERS

RI 10 – WORK FOR ASYLUM SEEKERS AND RELATIVES OF IMMIGRANTS

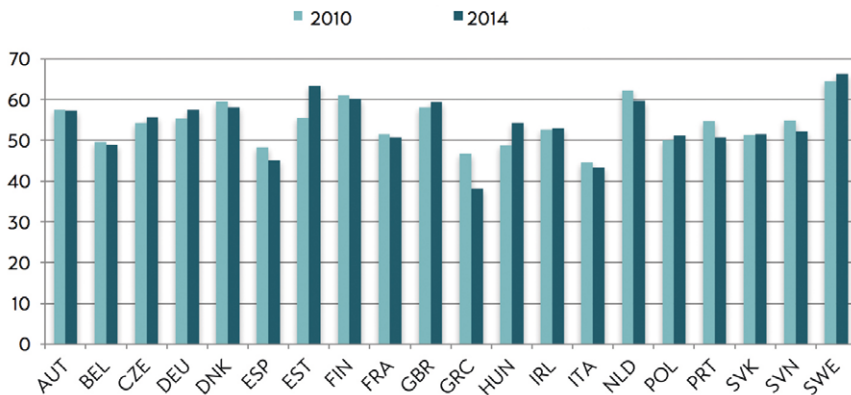
RI 11 – EDUCATION AND TRAINING FOR WORK

RI 12 – A SECOND CHANCE

Fredrik Reinfeldt presented the ideas behind RI in a speech at the London School of Economics in autumn 2015. RI is based on years of research and proven experience and is a further development of the Work-First Principle.

Under Fredrik Reinfeldt's leadership, extensive development work was carried out within the Moderate party, which laid the foundations for the labour market reforms that were implemented in Sweden during the centre-right Alliance government's eight years in power 2006–2014. The result was an unusually large expansion in employment in Sweden, both during and after implementation. The figure below illustrates the high levels of employment in Sweden in 2010 and 2014. The employment rate is the highest of all EU countries and is among the highest of the OECD countries.<sup>1</sup>

**FIGURE 1: EMPLOYMENT RATES 2010 AND 2014, PERCENTAGE OF POPULATION AGED 15 AND OVER**



**Source:** OECD.Stat, *Employment and Labour Market Statistics*, [www.oecd.org](http://www.oecd.org)

In this report, we have chosen to present RI together with other relevant research. The most extensive analysis of the economic policy of different countries is made by the OECD, which has influenced our report to a great extent. Their analyses have been used to illustrate the major need for a functioning framework (RI) in order to meet the social challenges that Europe faces.

<sup>1</sup> OECD is short for the Organisation for Economic Co-operation and Development.

## BACKGROUND

During the financial crisis of 2008–2009, unemployment increased in the OECD area. Over 43 million people were unemployed in the OECD countries 2014, around 11 million more than before the financial crisis. The employment rate was 1.4 percentage points lower in 2014 (fourth quarter) than in 2007 (fourth quarter)<sup>2</sup>. During the crisis, many decision-makers were fully occupied with “putting out fires” on the financial markets, while at the same time trying to put public finances in order. Labour market reforms to prevent the unemployment becoming permanent were not a priority and there is therefore a major need for reforms in order to get more people into work.

Responsibility for reinvigorating demand in the economy has lain with the central banks, which have implemented a highly expansive monetary policy, but this has failed to result in economic recovery in Europe. In the economic debate, particularly among American economists, the possibility is being discussed that Europe may be in a phase of secular stagnation, i.e. a situation where there is low growth and high unemployment for a very long period to come. Reforms will therefore be necessary on both the demand side and the supply side in order for the economy to be able to return to good growth rates. From this perspective, labour market reforms that improve the functioning of the economy are even more important than normal.

When focusing on a policy of stimulating growth, the most common response is to strengthen productivity. Productivity growth has fallen significantly in most countries over many years. This explains the pessimism among many researchers and debaters. We believe that a growing labour force also provides potential for growth, which should be taken into account. The OECD shows that potential growth per capita increased in Germany in 2014 compared with 2007, as labour market participation increased.<sup>3</sup> The explanations given for this are previously implemented structural reforms and the increased migration to Germany. More people in work helps to stimulate growth. One conclusion we draw is that it is just as important to increase the resources in

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2 OECD (2015c).

3 OECD (2014).

the economy as it is to utilise them effectively.

The OECD regularly publishes reports that evaluate which structural reforms its member countries have implemented and which they should be implementing. Structural reforms have been implemented to a lesser extent than before the financial crisis, in particular reforms to increase labour utilisation. It is clear that many countries are unwilling to implement wide-ranging reforms, despite repeated advice, particularly where these have negative short-term effects.

We believe that there is scope in a policy context for a conceptual framework that clearly highlights the need for structural reforms on the labour market. RI brings together the different elements of an effective policy for getting more people into work needed in a framework. We further develop the various elements below.

## IDENTIFY THOSE OUTSIDE THE LABOUR MARKET (RI 1)

The basis of RI focuses on the individual rather than the system. We want all those who are not working to be taken into account in policy decisions, whether or not they are looking for work. The traditional measure of unemployment is based on precisely defined job-seeking criteria. Broader measures of unemployment, such as U-6 in USA, also include “marginally attached” people (i.e. people who want to work but have not looked for a job) and those who work part time involuntarily. The OECD also points out in its recent assessment in 2015 that broader measures of unemployment indicate that resource utilisation has not risen significantly.<sup>4</sup>

There was a great debate ahead of the 2006 general election in Sweden regarding the actual level of unemployment. One point that came up in the Swedish debate was whether people who were outside the labour market as a result of their family situation, chronic illness or other legitimate reasons should be included in some form of definition of unemployment. An alternative term arose in the form of *outsiderness* and came to represent those people who did not participate in the labour market. There is no accepted definition of *outsid-*

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4 OECD (2015b).

erness and perhaps there should not be one. We believe that outsidersness can be described on the basis of many different dimensions and that there is a need to conduct deeper analysis of who is outside the labour market. If a broader analysis is not made beyond the traditional measure of unemployment, many people will be overlooked and much of the true capacity for growth that is present in a society will not be considered.

## IT HAS TO BE WORTHWHILE WORKING (RI 2)

Labour market participation and thereby long-term potential growth can be increased either by increasing net wages (by reducing income taxes) or by reducing the reservation wage (by tightening up the benefit systems) or by doing both. The OECD has indicated that empirical studies have not provided entirely unequivocal results with regard to how taxes affect employment and unemployment, but that it appears reasonable to conclude that labour taxes do have a significant impact on unemployment.<sup>5</sup> We show that in countries that have applied taxation policies with a focus on increasing the driving forces to find work, such as in Sweden for example, there has been a significant increase in employment and the supply of labour.

Over the past 15 years, tax credits have become very popular and have now been introduced in many OECD countries. The most common form is where the countries require a certain number of hours' work or a certain minimum income in order for a person to qualify for the tax credit. In many countries, the size of the tax credit is also linked to the number of children and the family income. The most common method is for the tax relief to be reduced or removed completely when income reaches a sufficiently high level. Sweden decided that the income from employment, rather than the number of hours, should form the basis of the in-work tax credit. The in-work tax credit in Sweden, Denmark and the Netherlands is structured in such a way as to provide proper incentives to be active on the labour market and also to encourage those who already have a job to work more hours.

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5 OECD (2011).

### **TIGHTEN UP THE BENEFITS SYSTEM (RI 3)**

We believe that adjustments to the benefit systems and a tax system that encourages work are the most important steps to take in order to increase potential growth. Sweden has been successful in encouraging people to be active on the labour market and in 2014 had the highest level of labour market participation of all EU and OECD countries, with the exception of Iceland. We believe that the Swedish in-work tax credit has been key to this success.

The OECD has calculated the threshold and marginal effects of moving from inactivity or unemployment to a job or to an increase in working hours. These calculations show that the threshold effects are high; over 60 per cent in most countries and over 80 per cent in almost half the countries.<sup>6</sup> Although these calculations were made in 2010, there have not been any particularly extensive reforms since then in the countries concerned and the picture remains unchanged.

Many countries have a labour force reserve within the female section of the population. The tax systems need to change in countries with joint taxation and opportunities for tax relief for family members, while at the same time the opportunities for high-quality childcare must be increased in order to provide incentives and opportunities for women to participate in the labour market. The labour market participation of women was again highest in Sweden out of all the OECD countries, with the exception of Iceland, in 2014.

### **ENCOURAGE OLDER PEOPLE TO CONTINUE WORKING (RI 7)**

We note that the labour market participation of older people in Sweden is also among the highest of all OECD countries. Financial incentives are a very important part of an older person's decision on whether or not to retire, although other factors, such as social and medical, also have an influence. A large number of changes have been made to pension systems since the financial crisis, but many challenges still remain. Many countries have increased the retirement age and adjusted the tax system in order to encourage work. Other countries

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6 OECD (2011).

have instead cut tax for pensioners, which reduces the incentive to work. And in Germany, for example, the retirement age was temporarily lowered from 65 to 63 in July 2014 (for those who have been in work for 45 years). This runs contrary to the idea of an extended working life, even though it has been decided to raise the retirement age again by two months per year to 65 from 2016.

It is still possible in many countries to draw a pension early if you become unemployed at an older age. These opportunities should be removed and the opportunities for retraining and continued work should be improved instead.<sup>7</sup> The unemployment systems must be reformed so that people remain in the labour market instead of retiring. The sickness benefit systems should also be structured so that they support a return to work, while at the same time providing security for those with little or no work capacity.

## **ALL JOBS ARE NEEDED (RI 5)**

We have already stated that taxes are an important policy instrument for increasing the driving forces to work, but they are also important for influencing the demand for labour. Tax reliefs are a way of making work accessible, even for those with a low level of education and lower productivity. Many countries reduced the tax wedges for those on low incomes between 2000 and 2009, but little more has been done since then. Reducing employer's contributions is a common method of increasing demand for the low-income workers. Another way to influence demand is to subsidise jobs for a given period of time. It means a lot for those who have difficulty finding a job to obtain some form of experience. The subsidisation of domestic and other services, which are provided in the informal sector in many countries, can help to establish a formal market and give more people an opportunity to find work. It is important here that wages are high enough to reflect the cost situation in the economy and that other working conditions are regulated in order to avoid the "working poor".

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7 OECD (2015f).



## **STRENGTHEN THE LABOUR FORCE (RI 4)**

With taxes and benefits that increase the incentives to work, and taxes and charges that increase demand for labour in place, measures are also needed to improve matching on the labour market. Labour market policy becomes increasingly important as the rate of change in the economy and on the labour market accelerates. We know from experience that job-seeker activities, coaching and labour market training, including full-time equivalent work placements, lead to increased job opportunities, in some cases in the slightly longer term. It is important to reduce the lock-in effects of participation in labour market policy programmes and to require continued job-seeking, particularly if the programme is not full-time equivalent. It is also important that the general education system motivates young people to complete their studies.

## **EXTEND THE WORKING LIFE (RI 6)**

It is not just about extending the working life at the upper end of the age range, but also about getting young people to enter the labour market at an early stage and soon after they have completed their studies. Despite the fact that youth unemployment has started to fall, the proportion of young people not in education, employment or training (NEETs) remains relatively unchanged. We need to motivate young people to complete their basic education and to activate young people in their meetings with employment advisers. Reducing employer's contributions is one way of improving the opportunities for young people to get a job. We also know that when the economy starts to recover, it is young people who find jobs first, provided that their unemployment has not been of such a length that their initiative and skills have been worn away.

## **WORK FOR ASYLUM SEEKERS AND RELATIVES OF IMMIGRANTS (RI 10) AND IMMIGRANT WORKERS (RI 9)**

Things have gone relatively well for foreign-born workers on the labour market during the financial crisis, which is a pleasing development. Compared with 2007, the proportion of foreign-born workers among the employed increased

in both 2011 and 2014 in the majority of OECD countries.<sup>8</sup> This will be a decisive and important issue for most European countries. They need to increase the size of their total labour force if they are to meet future welfare challenges. Large-scale migration can help to increase potential growth, as in Germany, provided that the migrants obtain a foothold in the labour market. This is where targeted efforts as close to the labour market as possible can improve employment opportunities. Many challenges still remain, however. The lack of networks is one reason why migrants find it difficult to establish themselves on the labour market, while other reasons include inadequate language skills and a lack of validation of their skills. The public sector should lead by example and give more migrants jobs and work placements; there is still a lot left to be desired.

### **IT IS IMPORTANT THAT THERE ARE OPPORTUNITIES FOR RESKILLING AND ADJUSTING (RI 8), GOOD EDUCATION AND TRAINING FOR WORK (RI 11) AND A SECOND CHANCE (RI 12)**

Global development and digitalization mean that people have to be flexible and retrain for new tasks, perhaps even once or twice in their lifetimes. Average life expectancy is also increasing and with it the need for good health and medical care. This also means that people will have to work to a later age. We believe that there should be opportunities for those who, for whatever reason, want to advance themselves and retrain, even if they already have a job. The work of the Swedish Job Security Councils should be able to provide an example and be developed in order to facilitate this.

The new challenges require a policy that continuously develops the opportunities for people to be able to work and to be able to do so throughout their entire life. The Reinfeldt Initiative formulates an economic policy that makes our economies stronger and our societies more inclusive. In order to succeed, it is important that there is a consensus on what the challenges are and what the risks are if we do not encourage more people to find work.

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8 OECD (2015e).



# 1. THE REINFELDT INITIATIVE – EUROPE'S NEED FOR STRUCTURAL REFORMS ON THE LABOUR MARKET

## **1.1 A COORDINATED CONCEPTUAL FRAMEWORK**

Together, and based on many years of experience working in academia and politics respectively, we have put together what we believe are the right reforms to achieve sustainable job growth. We are convinced that these are a number of coordinated and mutually strengthening reforms that need to be combined in an overall framework in order to work. A framework secures the positive growth effects of the reforms over a longer period and over business cycles. We call this framework the Reinfeldt Initiative (RI).

For almost a decade, economic policy in Europe has focused on crisis management and budget consolidation. Monetary policy has used all kinds of methods to try to sustain demand, while fiscal policy has often been forced to focus on reducing the budget deficit. The OECD states in its assessments

that monetary policy cannot be given complete responsibility for economic development. Fiscal policy must also stimulate demand and the countries must be prepared to implement structural reforms. We think that it is sometimes unclear what these reforms are and in some parts of Europe they have been wrongly associated with a need to make cuts and savings.

Labour market conditions are currently changing, for a number of reasons. The general pressure for change as a result of economic globalisation and greater digitalization is reducing the lifespan of the prevailing market structures. The pace and scope of adjustments is increasing, with some jobs disappearing, while there is growth in other jobs. In a Europe surrounded by dysfunctional states, war and conflicts, the level of migration is increasing and more people are coming here to start a new life and to try to enter the labour market. They have a highly diverse range of backgrounds in terms of their education and experience. Many have also suffered traumatic experiences, which affects their capacity to work, at least in the short term. Against a backdrop of increasingly global competition, large parts of Europe have attempted to secure their competitiveness by increasing the value added to goods and services. This in turn has reduced demand for unskilled labour. For those with the best school grades and an aptitude for study, this change has meant more skilled job opportunities and higher wages. At the same time, the thresholds for what is required in order to be considered for a job have been raised for an increasing proportion of each age group, as well as for many of those fleeing war and unrest in areas surrounding Europe. If Europe fails to handle this new reality through the right kind of reforms, there is a risk that an increasing number of people will find themselves without any opportunity to get and keep a job.

Every two years, the OECD publishes a report that evaluates which structural reforms its member countries have implemented and which they should be implementing. It is clear that many member states are unwilling to implement wide-ranging reforms, despite repeated advice from the OECD, particularly if these reforms are found to have negative short-term effects. There are also analyses of what effects different structural reforms may have if the economy weakens and these show which reforms may support a recovery in the short term. Examples of such reforms include improving the quality of education, making it easier to establish new companies, removing obstacles to becom-

ing established on the labour market, amending employment protection law so that it protects individuals instead of static jobs and integrating social security systems with active labour market policy measures.<sup>9</sup>

This advice on structural reforms varies and is based on the economic situation in the individual countries. It appears that countries have particular difficulty implementing reforms if they find that the economy is starting to recover. The OECD shows that a lower proportion of their advice to increase labour utilisation was implemented by the countries in 2013–2014 than during the two preceding periods.<sup>10</sup> This indicates that reforms are not willingly implemented unless under duress. Another curbing factor is political considerations: in countries with an impending election, reforms are often put on hold, at least until the election is over.

*We believe that there is scope in a policy context for a conceptual framework that clearly highlights the need for structural reforms on the labour market. The aim of this study is to provide a background to and a coordinated picture of the various components that form part of the conceptual framework. It is based primarily on the “Work-First Principle” but has a greater focus on the individual than on systems.<sup>11</sup> In a speech at the London School of Economics in autumn 2015 (“Europe needs a Work Initiative”), the twelve elements of the conceptual framework for the Reinfeldt Initiative (referred to below as RI) were presented. In brief, these twelve elements are:*

## **RI 1 IDENTIFY THOSE OUTSIDE THE LABOUR MARKET.**

Identify and analyse all those who are not in work. They are many more than just those who are usually described as being unemployed.

## **RI 2 IT HAS TO BE WORTHWHILE WORKING.**

Analyse the financial effects for each individual of going from not working at all to having a job, or from doing some work to doing more.

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9 See OECD (2015a), page 16.

10 Reforms to increase labour productivity have also been implemented to a lesser extent in 2013–2014 than in 2011–2012, but to a somewhat greater extent than in 2009–2010. See OECD (2015a), page 19.

11 The Work-First-Principle means that the tax and social security systems are structured so as to make working profitable and to link various benefits to a requirement to work.

### **RI 3 TIGHTEN UP THE BENEFIT SYSTEMS.**

What was intended as short-term support between jobs is becoming a permanent benefit system that hides unemployment. Passivity and outsidership are replacing efforts to get more people into work.

### **RI 4 STRENGTHEN THE LABOUR FORCE.**

In order to increase people's employability, more efforts must be made to plug training gaps, boost self-confidence and stimulate job-seeking with improved quality.

### **RI 5 ALL JOBS ARE NEEDED.**

If we are to find a place on the labour market for everyone's talents and experience, all types of jobs will be needed.

### **RI 6 EXTEND THE WORKING LIFE.**

We are living longer and learning for longer. For our welfare solutions to be sustainable, this must be coupled with more work over the whole of our lifetime. The most important thing is to analyse when we start working, how we reconcile work with having a family, and how long we remain in the labour market in our later years.

### **RI 7 ENCOURAGE OLDER PEOPLE TO CONTINUE WORKING.**

Average life expectancy is increasing rapidly in large parts of the world. We have to prepare our society for a time when many people will live to be 100. We need to change our attitude and our incentive systems in order to encourage more people to continue working later in life.

### **RI 8 RESKILLING AND ADJUSTING.**

The combination of extended working life and increasing job turn-over will require greater ability and encouragement to retrain. People must be encouraged to restart and change their chosen career path.

### **RI 9 IMMIGRANT WORKERS.**

The birth rate is too low to support welfare financing in the long term or to supply developed countries with labour. Good, broad-ranging opportunities for immigrant workers will be necessary.

### **R 10 WORK FOR ASYLUM SEEKERS AND RELATIVES OF IMMIGRANTS.**

Looking for work is not the primary concern for most of those who come to Europe. They are fleeing from inhuman conditions or are following members of their family who have fled before them. Our ability to encourage them to work and to help them onto the labour market determines how successful their integration and independence will be in their new homeland.

### **R 11 EDUCATION AND TRAINING FOR WORK.**

The vital role that training and education play for employability and the ability to adjust cannot be overstated. The education and training system must follow people better throughout their lives, as we are living longer and there is a growing need for renewal and adjustment.

### **R 12 A SECOND CHANCE.**

Things go wrong in life for a lot of people. To prevent that they end up as outsiders, society must work more pro-actively in order to get them back into work.

*We believe that labour market reforms will be required in Europe in order to ensure growth and competitiveness. At the same time societies then will become truly inclusive. We will provide examples below of the different elements by making reference to different countries. Our reasoning is principally based on the analyses of the functioning of the labour markets that are made by the OECD, as well as on Swedish experiences.<sup>12</sup>*

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12 The OECD publications are reported in a separate list of references.



## 1.2 THE RISK OF LONG-TERM ECONOMIC STAGNATION ALSO PROVIDES MOTIVATION FOR SUPPLY REFORMS

There is a lot of talk about “secular stagnation” in the American debate, which can have slightly different interpretations, depending on who you talk to. Alvin Hansen, who originally coined the term in 1938, thought that the demographic and technological development risked leading to a very long period of low growth and high unemployment. He feared that the American economy would find it difficult to recover from the Great Depression as investment opportunities had been reduced because the borders had been closed and immigration had collapsed.<sup>13</sup>

The term means that an economy does not grow, or only grows very slowly, despite traditional stabilisation policies or – as now – despite a highly expansive “unconventional” monetary policy. There is instead a more fundamental change in the dynamics of the economy that means growth does not accelerate. There is however, no unanimous opinion on what it is that has changed; there are also some economists who believe that the economic recovery is coming, just at a slower pace than in previous business cycles because the financial crisis has been unusually deep and protracted.

Professor Larry Summers, who is one of the proponents of “secular stagnation”, argues that investment demand is far too inadequate to be able to absorb the financial saving of households and companies, despite the fact that interest rates are so low there is a risk of financial bubbles.<sup>14</sup> The low level of investment demand can be partly explained by supply factors: when the labour force is reduced, the level of investment required falls.

Summers also talks about the changes in technology. He believes that digitalization is more likely to push development towards a long and drawn-out stagnation than to counteract it. Large internet companies that develop digital plat-

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13 “Secular stagnation: Fad or fact?”, *The Economist*, 16 August, 2014; <http://www.economist.com/blogs/freexchange/2014/08/secular-stagnation>

14 Summers, L., “Now is the time to rebuild our national infrastructure”, *Boston Globe*, 11 April, 2014; <https://www.bostonglobe.com/opinion/editorials/2014/04/11/idle-workers-low-interest-rates-time-rebuild-infrastructure/UIYHNLdzN0frz0VMVkTS1K/story.html>

forms do not need the same real investments as the large companies of the past. Summers therefore recommends direct public-sector investment measures.<sup>15</sup>

This is also the backdrop to when Jean-Claude Juncker was appointed President of the European Commission in November 2014 and presented his plans for helping Europe. The so-called Juncker Plan has been clearly influenced by the confidence in investments that responded to Europe's challenges. It is expected to set aside EUR 315 billion for investments in 2015–2017. However, only EUR 21 billion of this is guaranteed by public funds, while the rest will need to be financed using private capital.<sup>16</sup> Critics are doubtful about the success of this and believe that the amount is in any case too small – at around 1 per cent of EU GDP – to make a difference. We are more concerned about a much too one-sided confidence in investments that risks replacing other more meaningful job-creation reforms.

The OECD has also addressed which policy measures are necessary in the euro area and Japan in order to avoid ending up in a “stagnation trap”. In their assessment, GDP per capita in the euro area cannot be expected to return to the 2007 level before 2017 at the earliest, in other words the euro area will have a “lost decade” comparable with the stagnation in Japan. An extensive stimulus package of structural reforms is therefore required in order to support investments, trade, employment, small and medium-sized companies and entrepreneurship, while at the same time monetary and fiscal policy should provide stimulation to an appropriate extent.<sup>17</sup>

Here the OECD states that a pro-active labour market policy may consolidate the impact of the structural reforms. Job-seeking programmes and labour market work placements can, for example, both increase demand in the short term and improve the growth potential of the economy in the long term, while at the same time reducing the income gap and poverty. The OECD calls this “triple wins”. They believe that a pro-active labour market policy that focus-

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15 “In Conversation with Professor Lawrence Summers”, Chair Paul De Grauwe, London School of Economics, 23 Jan 2015, on YouTube; <https://www.youtube.com/watch?v=my-PSKrDtpw>

16 European Investment Bank and European Commission “Factsheet 2, Where does the money come from?”. [www.eib.org](http://www.eib.org)

17 Escaping the stagnation trap: policy options for the Euro Area and Japan, January 2015, OECD. [www.oecd.org](http://www.oecd.org).

es on individuals with low incomes will have the biggest effect on demand. Measures that make working more profitable (“Make-Work-Pay Policies”) and measures that mean women and older people enter or remain in the labour force are examples of important labour market reforms.

If we take into account Hansen’s original analysis of “secular stagnation”, supply-side measures should be at least as important as the demand-side measures that are currently dominating the debate. In the e-book “Secular Stagnation”, edited by Coen Teulings and Richard Baldwin, they claim that structural reforms that improve the supply side of the economy and increase potential growth can be more “potent” than usual, because they can accelerate investments and contribute to a higher level of demand.<sup>18</sup>

*Our conclusion is that reforms to encourage more people into work, so-called supply-side reforms, are absolutely vital in order to be able to handle future demographic and technological changes. Focusing solely on stimulus measures will be insufficient. Public-sector investments are too small and too costly to make a real difference in a Europe where restrictive budget conditions prevail. They must be supplemented by reforms that focus on individuals in order to increase people’s employability and prevent more people ending up outside the labour market.*

### **1.3 PROSPERITY HAS HISTORICALLY BEEN CREATED BY HIGHER PRODUCTIVITY GROWTH**

There has been a lack of potential growth in many OECD countries since the financial crisis of 2008. Projections show that potential growth per capita, which is often used as a measure of standard of living, fell by around 3.25 per cent in the OECD region between 2008 and 2013. This is an average figure, however, and in some small countries the fall has been up to 10 per cent. It is only the level that is permanently affected, however, and not the growth rate. The fall corresponds to a temporary reduction in the growth rate of half a percentage point per year.<sup>19</sup>

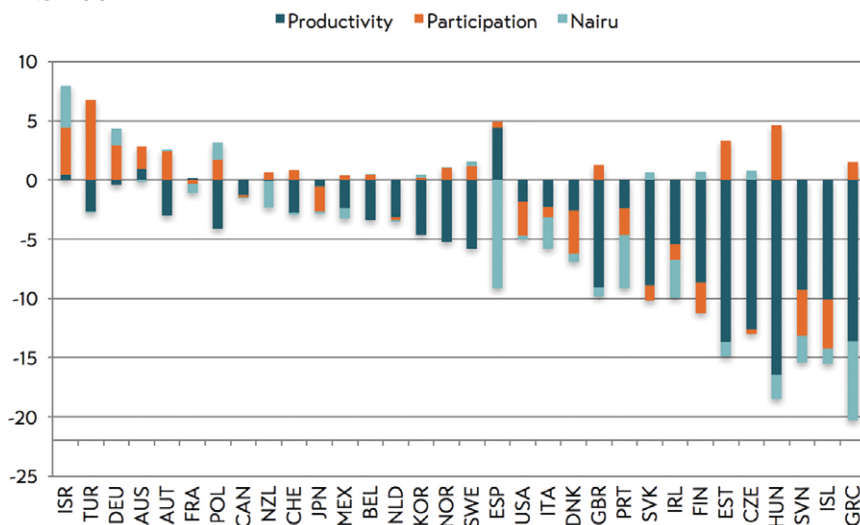
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18 “Secular Stagnation, Facts, Causes and Cures” ed. Coen Teulings and Richard Baldwin, A VoxEU.org Book, CEPR Press.

19 OECD (2014), Box 4.3, pages 221–222.

Potential growth is affected by productivity growth, labour market participation and structural unemployment. The fall in potential growth is explained in many countries, and particularly in those countries where potential growth has fallen the most – by lower productivity growth. In Finland, for example, estimates show that potential growth fell by more than 10 per cent, with the majority of this attributable to lower productivity growth (see Figure 2). In other countries, such as Denmark, the USA and Japan, the lower potential growth is the result of reduced labour market participation. In these countries, labour market participation is mostly being held back by demographics. In Germany, labour market participation is mostly being held back by demographics. In Germany, in contrast, potential growth is estimated to have increased in 2014 compared with 2007, which for the most part is explained by increased labour market participation as a result of both structural reforms and migration.

**FIGURE 2: POTENTIAL GROWTH PER CAPITA, DIFFERENCE BETWEEN 2014 AND 2007**

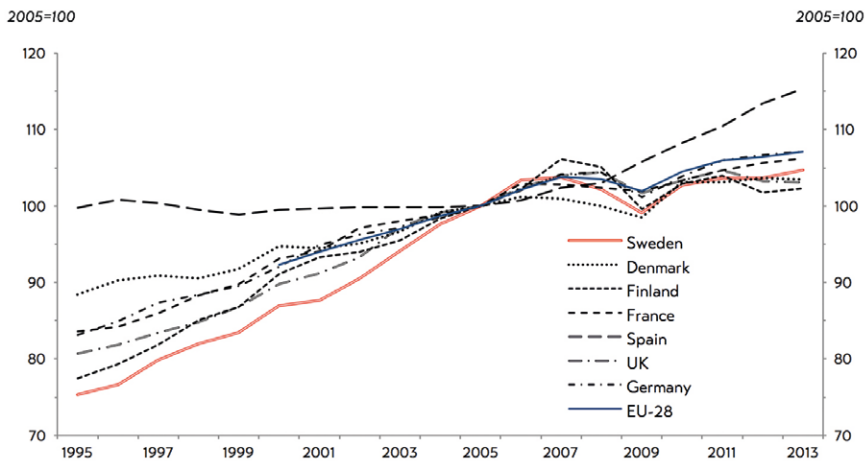


**Source:** OECD Economic Outlook 95 long-term database; and OECD calculations, OECD (2014).

Increased participation is therefore also an important factor behind increased growth, while at the same time resources must be used as efficiently as possible. According to Klas Eklund in his book “Tillväxt” (Growth), there are studies that indicate that two-thirds of global economic growth during the 20th century came from increased productivity.<sup>20</sup> Nobel laureate Paul Krugman also writes about the importance of productivity: “Productivity isn’t everything, but in the long run it is almost everything”.<sup>21</sup>

If we look solely at labour productivity, defined as production volume per hour worked, this has also fallen in many countries since the 2008 financial crisis, but is slowly beginning to rise again (see Figure 3).

**FIGURE 3: LABOUR PRODUCTIVITY IN THE ECONOMY**



**Source:** “Svensk Finanspolitik, Finanspolitiska Rådets Rapport 2015” (Swedish Fiscal Policy, Fiscal Policy Council Report 2015). Data from the OECD database, [www.oecd.org](http://www.oecd.org).

A lower level of productivity does not necessarily mean, however, that there

20 Eklund, K., “Tillväxt”, Student literature, 2015.

21 Krugman, P., “The Age of Diminished Expectations”, Third edition, MIT Press, July 1997.

have been any fundamental changes in the economy. In a downturn, lower labour productivity can result from companies choosing to retain their workforce and reduce their hours instead of cutting jobs (known as “labour hoarding”). This pattern was evident in many countries during the financial crisis. In Germany, for example, shorter working hours (“kurzarbeitzeit”) were introduced during the most acute phase of the financial crisis. In countries such as Spain, Portugal and Ireland, employment fell by considerably more than production in 2007–2009, which indicates an increase in productivity growth. In other countries, such as Sweden, Germany and Denmark, GDP fell considerably, while employment reduced marginally and productivity growth was instead weak during the same period.<sup>22</sup>

According to the OECD’s assessment, resource utilisation increased slightly in 2015, although there is still an extensive labour market slack. Investments have not materialised and the future development of potential growth is uncertain. Estimates show that the potential growth rate will be one quarter lower in 2016 than in previous estimates. One of the reasons for this is a slowdown in the implementation rate of structural reforms. The potential growth rate in Germany, however, does not need to be revised downwards.<sup>23</sup> The increase in the labour force, as a result of migration and earlier reforms, explains why the potential growth rate has increased in Germany compared with 2007.

The OECD also highlights in its forecast that unemployment is an inadequate measure of available resources. Broader measures of unemployment, which include involuntary part-time workers and people who want a job but are not actively looking for one, remain well above equivalent measures before the financial crisis in both the USA and the euro area, which indicates that resource utilisation is less strained. (We will return to a discussion of the measure of unemployment below). In 2014, unemployment was at 7.3 per cent and labour market participation was at 60 per cent for the OECD area as a whole. In Sweden, unemployment was at 8 per cent and labour market participation, which is the highest of all EU countries and OECD countries

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22 See Finanspolitiska Rådet (2015), “Svensk finanspolitik, Finanspolitiska Rådets Rapport 2015” (Swedish Fiscal Policy, Fiscal Policy Council Report 2015).

23 OECD (2015b), Box 1.5, page 38.

with the exception of Iceland, was 72 per cent in 2014.<sup>24</sup>

*Our conclusion is that there is significant scope for increasing labour market participation in many countries by using RI as a framework. (Figures 4 and 5 in section 2 show unemployment and labour market participation respectively in a number of OECD countries). It is just as important to increase the resources in the economy as it is to utilise them effectively. Germany is an example where potential growth has increased during the financial crisis, thanks to more people being active on the labour market, while productivity growth has not been significantly affected. Basing policy solely on increased productivity growth could ultimately result in policy recommendations that exclude low-productivity workers from the labour market. We believe that there are major opportunities to increase the growth potential of the economies, both in terms of increasing the incentives to participate on the labour market and encouraging more people into work. This does not exclude measures to increase efficiency or to directly stimulate investment demand. The Reinfeldt Initiative is a framework in which to lay the foundation of this growth policy.*

Below, we will examine the analysis behind the different elements in RI and discuss their application to Europe's economies through the use of appropriate examples.

In section 2, we examine unemployment in different countries and discuss the relevance of the measure used. Section 3 looks at economic incentives to increase the labour force, while Section 4 looks at taxes and subsidies to increase labour demand. With these elements in place, an effective labour market policy is also required, and this is considered in Section 5. In Section 6, we examine the focus on specific groups, both the young and migrants. Finally, Section 7 discusses a flexible working life over a person's lifetime.

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24 Data relates to the population over the age of 15 and is taken from OECD, Labour Market Statistics. [www.oecd.org](http://www.oecd.org)

## 2. WHAT IS THE LEVEL OF UNEMPLOYMENT?

*This section covers RI 1 “Identify those outside the labour market”.*

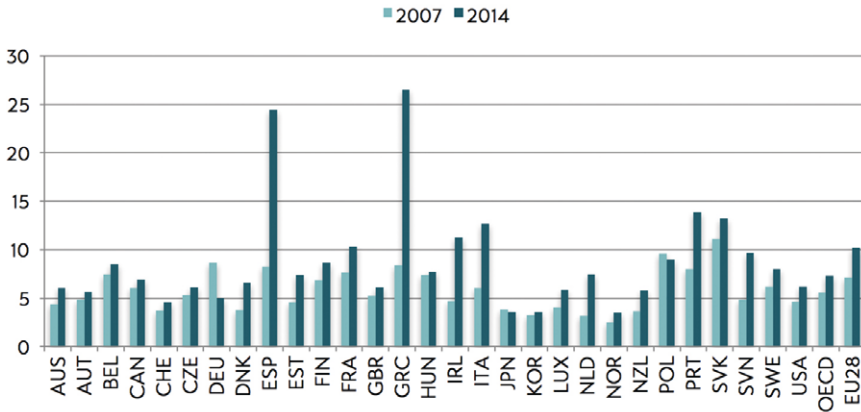
Since the financial crisis, unemployment has increased in almost all countries in Europe. Germany is the exception, where unemployment fell from 8.7 per cent in 2007 to 5 per cent in 2014.<sup>25</sup> Unemployment in the EU countries as a whole increased to 10.2 per cent in 2014. In Denmark, which had low unemployment at the beginning of the financial crisis, unemployment increased by around three percentage points to 6.6 per cent in 2014. Another country often cited as having a low level of unemployment is Austria. Unemployment there increased from 4.9 per cent in 2007 to 5.6 per cent in 2014. Figure 4 below shows the unemployment figures for most of the OECD countries. As we have previously mentioned, these unemployment figures do not give anything like the full picture.

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25 Unemployment also fell in Poland between 2007 and 2014.



**FIGURE 4: UNEMPLOYMENT RATES 2007 AND 2014, PERCENTAGE OF THE LABOUR FORCE AGED 15-64**



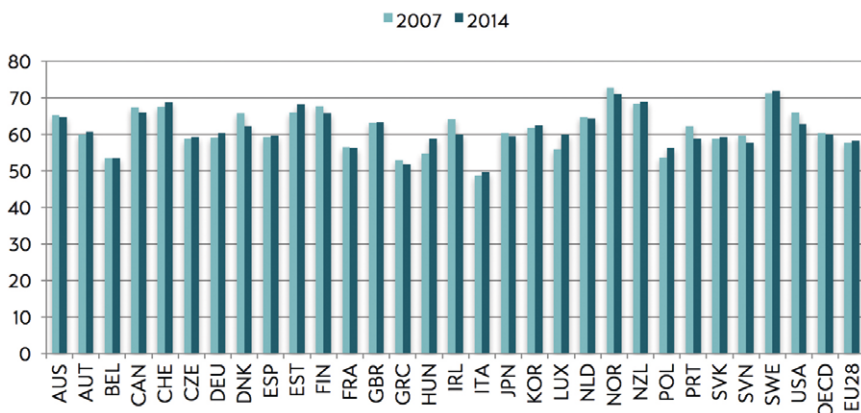
**Source:** OECD.Stat, *Employment and Labour Market Statistics*, [www.oecd.org](http://www.oecd.org)

A factor that is equally important as unemployment is labour market participation.<sup>26</sup> Figure 5 shows the proportion of the entire population (aged 15 and over) that is participating in the labour market (either as employed or as unemployed). Sweden is the highest of EU28 and of the OECD countries, with the exception of Iceland.<sup>27</sup> Norway also scores highly, but labour market participation in Norway fell between 2007 and 2014. Denmark and Finland have also experienced a reduction in labour market participation. Germany is at the OECD average, as is Austria. If the analysis considers both unemployment figures and information about labour market participation, the overall picture of which countries are most successful is different from when referring solely to unemployment figures, as is usually the case.

26 The labour force is calculated as the total number of people who are either in employment or are unemployed. Labour market participation is expressed as a percentage of the population.

27 Iceland had the highest labour market participation in 2007 (83 per cent) and in 2014 (81.5 per cent).

**FIGURE 5: LABOUR MARKET PARTICIPATION 2007 AND 2014 AS A PERCENTAGE OF THE POPULATION AGED 15 AND OVER**



**NB:** Labour market participation relates to those aged 15 and above.

**Source:** OECD.Stat, *Employment and Labour Market Statistics*, [www.oecd.org](http://www.oecd.org)

Figures 4 and 5 show that unemployment and labour market participation are linked. A country can have low unemployment at the same time as – or perhaps precisely because – labour market participation is low. In Denmark, for example, unemployment was almost 1.5 percentage points lower than in Sweden in 2014, while at the same time labour market participation was 10 percentage points lower. This may quite simply mean that it is the most skilled workers who are on the labour market and who have therefore succeeded in finding a job. If more of the groups that often have difficulty entering the labour market were also to participate in the labour market to a greater extent, unemployment could possibly be higher. Sweden, which has higher labour market participation, also has higher unemployment, as many people with skills that are less in demand are looking for work. Put simply, there are more people in Sweden who want to work. This demonstrates that an analysis of the development of the labour market should not only include unemployment, but also labour market participation. We will be devoting this section to a discussion of unemployment and we will also discuss labour market participation in later sections.

## 2.1 UNEMPLOYMENT AS A TERM

Unemployment is a well-defined term that is based on established statistical conventions. It is therefore suitable for making comparisons between countries, as well as over time. However, this measure can be restrictive. The definition of unemployment includes an element of job-seeking, in other words in order to be counted as unemployed, a person must also have been looking for work for the past four weeks and must be available for work within the next two weeks.<sup>28</sup> However, the fundamental question should be asked of what a measure of unemployment is to be used for. Three areas of application come under consideration: (1) as a measure of underutilisation of labour (2) as an indicator of social hardship, and (3) as a determinant of wage pressure.<sup>29</sup> As the Reinfeldt Initiative wants to generate debate about and understanding of the need for an increased supply of labour, it is most important to us to discuss unemployment primarily on the basis of the first two areas of application.

Since the financial crisis there has been a need to identify resource utilisation using factors other than just the traditional measure of unemployment. The US Bureau of Labor Statistics (BLS) regularly reports six different measures of unemployment, which can be said to reflect the three dimensions in different ways.<sup>30</sup> A great deal of attention has been devoted to the different measures in recent years and the U-6 measure, which is called broad unemployment, continually comes up in international economic discussions.<sup>31 32</sup> U-6 includes people who would like to have a job but have not looked for one (so-called marginally attached people) and those who work part time but would actually

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28 See Holmlund, B. (2005) "Hur hög är egentligen arbetslösheten i Sverige?" (How much actual unemployment is there in Sweden?), *Ekonomisk Debatt*, volume 33, no. 6, pages 6–20. [www.nationalekonomi.se](http://www.nationalekonomi.se)

29 Elmeskov, J. and Pichelmann, K., "Interpreting Unemployment: The Role of Labour-Force Participation", *OECD Economic Studies*, 1993.

30 "Alternative Measures of Labor Underutilization for States", Bureau of Labor Statistics, United States Department of Labor. <http://www.bls.gov/lau/stalt.htm>

31 "What Does the U-6 "Broad Unemployment Rate" Really Tell Us?", *EconoMonitor*, Ed Dolan's Econ Blog, 16 September 2013. <http://www.economonitor.com/dolanecon/2013/09/16/what-does-the-broad-unemployment-rate-u-6-really-tell-us/>

32 Paul Krugman, "The Case for a Better U", *The New York Times*, January 17, 2014. [http://krugman.blogs.nytimes.com/2014/01/17/the-case-for-a-better-u/?\\_r=0](http://krugman.blogs.nytimes.com/2014/01/17/the-case-for-a-better-u/?_r=0)

like to work full time.<sup>33</sup> The OECD includes both these groups in its 2015 assessment and points out that broader measures of unemployment indicate that resource utilisation has not risen significantly.<sup>34</sup> Since 2011, the EU has also reported these groups in its Eurostat statistical database.<sup>35</sup>

## 2.2 DEBATE SURROUNDING THE MEASURE OF UNEMPLOYMENT

When analysing the labour market ahead of the elections in Sweden in 2006, a debate arose about the actual level of unemployment and the need for alternative measures of unemployment. The Moderate party stated that the proportion of the population that was inactive was between 20 and 25 per cent. The basis here was unemployment as more of an indicator of social hardship.<sup>36</sup> One point that came up in the Swedish debate was whether people who were outside the labour market as a result of their family situation, chronic illness or other legitimate reasons should be included in some form of definition of unemployment. An alternative term arose in the form outsidersness, which came to represent all those people who did not participate in the labour market.<sup>37</sup>

The question was how to define outsidersness. There was no accepted statistical definition of the term and perhaps there should not be one. A more practical approach is to describe outsidersness on the basis of a number of dimensions. EU statistics can provide guidance here. It is possible, using data from Eurostat, to see how people in different categories in and outside the labour market perceive their situation.

Below is a table from 2010, which compares the self-perceived labour market

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33 Figures A1a and A1b in Appendix 1 show marginally attached people and those working part time who want to work full time respectively.

34 OECD (2015b) page 15.

35 De La Fuente, A., "New measures of labour market attachment, 3 new Eurostat indicators to supplement the unemployment rate", *Statistics in Focus*, Eurostat, 57/2011.

36 One measure, which the Moderate party called broad unemployment, corresponded to the now widely known calculations made by the OECD for young people of the proportion of NEETs (Not in Education, Employment or Training), but applied to the entire adult population.

37 See Etzler, A., *Reinfeldteffekten (The Reinfeldt Effect)*, Chapter 3, pages 128–144, Karneval Förlag, Stockholm, 2013.

situation with the statistically measurable situation in the population, divided into six categories: (1) people who are employed, excluding those working part time who want to work full time (2) people working part time who want to work full time (3) people who are unemployed in the sense of the ILO definition, i.e. those who have both been looking for work for the past four weeks and are available for work within the next two weeks (4) people who are unemployed and looking for work but are not available for work within the next two weeks (5) people who are available but who are not looking for work, and (6) others who are economically inactive. Categories 1–3 constitute the labour force, while categories 4–6 constitute those who are “economically inactive”, i.e. those who are neither employed nor unemployed according to current definitions. The figures refer to the 15–74 age group in all EU countries except for Germany and the United Kingdom.<sup>38</sup>

**TABLE 1: STATISTICALLY MEASURABLE LABOUR MARKET SITUATION (ROWS) COMPARED WITH SELF-PERCEIVED LABOUR MARKET SITUATION (COLUMNS) FOR EU-27, 2010**

	Employed	Unemployed	Houseperson (domestic tasks, etc.)	Student	Retired or disabled	Other inactive people	Total
1. Employed, not underemployed	97%	0%	0%	1%	1%	0%	100%
2. Underemployed part-time	88%	6%	1%	4%	1%	1%	100%
3. Unemployed (ILO-definition)	1%	89%	2%	4%	1%	2%	100%
4. Seeking work but not available	3%	57%	8%	19%	4%	9%	100%
5. Available, not seeking work	1%	43%	19%	10%	10%	17%	100%
6. Other inactive	1%	2%	15%	25%	46%	12%	100%

**NB:** Data for Germany and United Kingdom not available

**Source:** Eurostat, EU labour market surveys

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<sup>38</sup> The table can be found in De La Fuente, A., op.cit.

It is interesting to note that a majority (57 per cent) of those in category 4 consider themselves to be unemployed – and they are in fact looking for work – and that less than half (43 per cent) of those in category 5 consider themselves to be unemployed. Despite the fact that they are available, they are not looking for work. It can also be seen that 19 per cent of those in category 5 devote themselves to domestic tasks and that 17 per cent are simply inactive. The largest percentage of students is in category 6 (25 per cent), along with the largest percentage of those with a disability or who are retired (46 per cent).

**IT IS IMPORTANT TO IDENTIFY THOSE OUTSIDE THE LABOUR MARKET (RI 1).** *An economic debate that is based solely on the traditional measure of unemployment overlooks many people and their work capacity is not considered. As a result, it will not be possible to describe many of the challenges on the edge of society nor propose solutions.*

*The basis of RI focuses on the individual rather than the system. This means that all those who are not working are taken into account in policy decisions, whether or not they are looking for work. Broader measures of unemployment, such as U-6 in the USA, not only say something about resource utilisation in the economy, but also identify those who have been subjected to social hardship as a result of low levels of activity in the economy without them being registered as unemployed for the sake of it.*

*There is every reason within RI to further deepen the analysis of those outside the labour market in order to better understand the economic situation. It is a reasonable basis to use some form of broad unemployment in order to see how people can be affected by the weakening of the economy, while at the same time the structures on the labour market or in the economy do not otherwise encourage participation and work to a sufficient extent.*



### 3. ECONOMIC INCENTIVES TO INCREASE THE LABOUR FORCE

*This section covers RI 2 “It has to be worthwhile working”, RI 3 “Tighten up the benefits system”, RI 6 “Extend the working life” and RI 7 “Encourage older people to continue working”.*

The discussion above largely concerned the composition of the potential labour force, i.e. how many people should be able to work, irrespective of whether or not they are looking for a job. As Figure 5 shows, labour market participation for the population as a whole in 2014 ranged from 50 per cent (in Italy) to over 70 per cent in Sweden. Experience shows that the reservation wage, i.e. the wage at which it makes no difference to the individual's income whether they work or not, often has a decisive effect on how willing people are to work. If the wage after tax exceeds the reservation wage, people will choose to work if this is offered, otherwise they will not. The reservation wage is determined by the income the individual has without working, which comprises various benefits and transfer payments. One way of increasing labour market participation, and



thus long-term potential growth, is to make working more profitable by increasing the net wage (reducing income tax) and/or reducing the reservation wage by tightening up the benefits system. It is particularly workers with low wages who are close to the reservation wage who are affected by changes to taxes or benefits.

### 3.1 HIGH THRESHOLD AND MARGINAL EFFECTS

The OECD has made calculations for those on low incomes of how much of their gross income is “taxed away” when they move from inactivity or unemployment to a job, whereby not only is tax taken into account but also the effects of transfer payments being reduced or removed when they start working. This measure is called “participation rates”. We call them threshold effects. There are also equivalent calculations for how much of gross income is “taxed away” when working hours are extended from a part-time job where the wage is 50 per cent of the average wage to a part-time job that provides 55 per cent of the wage. These measures are called “marginal effective tax rates”, which we call marginal effects.<sup>39</sup>

Some conclusions can be drawn for the calculations made for 2009. The threshold effects of moving from inactivity (or long-term unemployment) to work were particularly high for single people, single parents, and families with two children and only one wage-earner. In Denmark, the threshold effects were high across the board and for inactive single people the threshold effect was 100 per cent, which is the highest of all the countries reported. On the whole, Denmark reports higher threshold effects than the other Nordic countries.<sup>40</sup>

The threshold effects of moving from (short-term) unemployment to work are also high; over 60 per cent in most countries and over 80 per cent in almost half the countries. In some countries, the threshold effect exceeded 100 per cent, which means that the financial outcome is worse when working. This is explained by the fact that the wage used for the calculations is low, while the transfer payments are withdrawn when a job is found. In Japan, the threshold

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39 The calculations are made for a wage-earner with 50 per cent of the average wage. See OECD (2011), pages 55-60.

40 See Figure 2.2 in OECD (2011), page 58.

effect of moving from (short-term) unemployment to work was 116 per cent for a family with two children and only one wage-earner. Sweden is also at a comparatively high level in this respect, at around 100 per cent.<sup>41</sup> For large groups, therefore, not having a job has no financial impact on their lives and for far too many people having a job actually worsens their finances.

The calculations also show that the marginal effects can be very high, which means that many people refrain from increasing their working hours. They are particularly high for single-parent families and families with two children and only one wage-earner. However, the marginal effects vary by country far more than the threshold effects. In many countries they were over 100 per cent, while in others they were below 20 per cent. Germany is at a high level here, in particular for single parents and for families with two children and only one wage-earner. In Sweden, the marginal effects are lower than in many other countries, at around 40–60 per cent, although the marginal effect for families with two children and only one wage-earner was measured at 80 per cent in 2009.<sup>42</sup> We believe that the reported threshold and marginal effects have a major impact on the willingness to find a job.

The OECD's calculations show that the threshold effects are lower for a spouse who has been inactive starting work than, for example, a single person. This is because a person who is married to a wage-earner usually receives lower benefits and transfer payments than someone who is single. In Sweden, Finland, Norway and Austria, the threshold effect is low and was around 30 per cent in 2009, while in Germany it was 50 per cent. Denmark is the country with the highest threshold effect for a spouse who has been inactive, which was calculated at 80 per cent in 2009.

### 3.2 FEMALE LABOUR MARKET PARTICIPATION

In many countries, the most important labour force reserve can be found within the female section of the population (see Figure 6). In Sweden, female labour

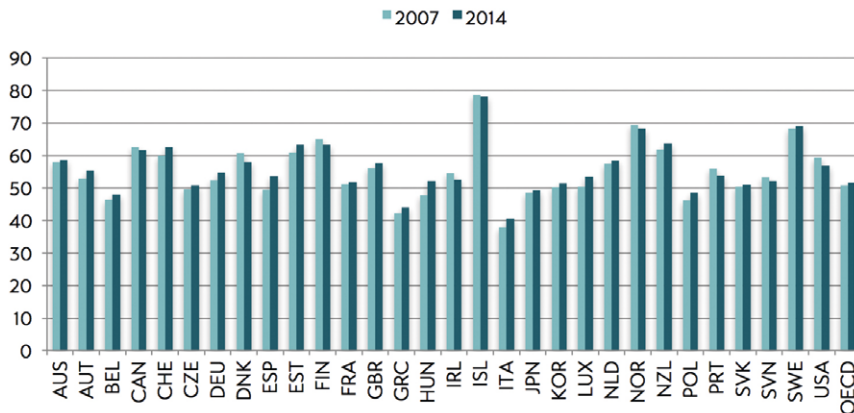
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41 See Figure 2.1 in OECD (2011), page 56.

42 See Figure 2.3 in OECD (2011), page 59.

market participation was the highest of all OECD countries, with the exception of Iceland, in 2014 and was at 69 per cent.<sup>43</sup> It is also high in Norway, although the level has reduced since 2007. In both Denmark and Finland, female labour market participation has also fallen between 2007 and 2014. Of all the Nordic countries, Denmark had the lowest labour market participation in 2014 at 59 per cent. In France, Austria and Germany, female labour market participation has increased and was around 50 per cent in 2014.

**FIGURE 6: FEMALE LABOUR MARKET PARTICIPATION 2007 AND 2014 AS A PERCENTAGE OF THE FEMALE POPULATION AGED 15 AND OVER**



**NB:** Female labour market participation relates to those aged 15 and above.

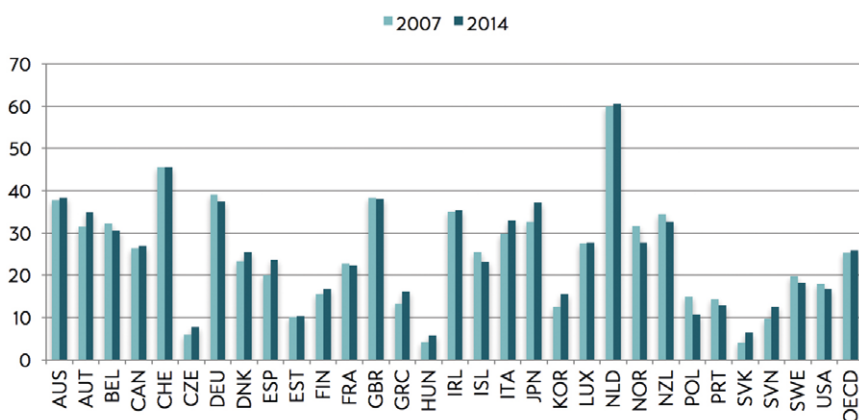
**Source:** OECD.Stat, Labour Market Statistics. [www.oecd.org](http://www.oecd.org).

In addition to the fact that many women are outside the labour market, a large proportion of women who are on the labour market work part time, either because they have chosen to do so or because they are unable to find full-time work (see Figure 7). In 2014, the proportion of women working part time was

43 Iceland had the highest female labour market participation in 2007 (78.6 per cent) and in 2014 (78.2 per cent).

the highest in the Netherlands at 60 per cent. A large proportion of women in Switzerland also work part time and the same is true of the United Kingdom. In both Austria and Germany, a larger proportion of women work part time than the OECD average. In the Nordic countries, a larger proportion of women work part time in Norway than in Finland, Sweden, Denmark and Iceland.

**FIGURE 7: PROPORTION OF WOMEN WORKING PART TIME IN 2007 AND 2014 AS A PERCENTAGE OF FEMALE EMPLOYMENT AGED 15 AND OVER**

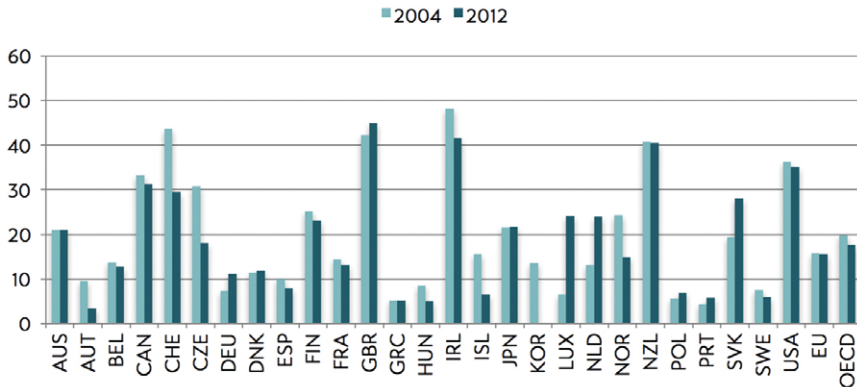


**Source:** OECD.Stat, *Employment and Labour Market Statistics*. [www.oecd.org](http://www.oecd.org).

In countries where female labour market participation is low and the proportion of women working part time is high, measures are required that provide women with an incentive to participate in the labour market. Work opportunities for women must also be improved. Many of the answers are to be found in how income tax is structured for low-wage earners. In countries with joint taxation or where deductions are made for family members, there is less incentive for women to work than in countries with separate taxation. The OECD recommends that a number of countries reduce their tax wedges, both on average and at the margin, including, for example, Denmark, Finland, Austria, Germany and

France. For Germany, Switzerland and the United Kingdom, it is also suggested that the availability of good childcare be increased.<sup>44</sup> The United Kingdom had the highest cost of childcare among all OECD countries in 2012, which was equivalent to around 45 per cent of the average wage (see Figure 8). Finland and Norway also had comparatively high costs (around 25 per cent), while Sweden, Austria, Germany and Denmark had costs of between 5 and 10 per cent.

**FIGURE 8: NET COST OF CHILDCARE**



**NB:** Net cost for parents where the main earner has 100 per cent of the average wage and their spouse has 67 per cent of the average wage.

**Source:** OECD, *Tax-Benefit Models*, OECD (2015a), page 136.

### 3.3 DIFFERENT FORMS OF TAX CREDITS – IN-WORK TAX CREDIT

In order to reduce both threshold effects and marginal effects, many countries use different forms of tax credits that are linked to income from work (“in-work tax credits”, “earned income tax credits” EITC). This form of tax relief

44 See Table 1.2 in OECD (2015a), page 37.

increases both the incentive to work and the opportunity for people to provide for themselves. It is particularly important in countries where wages are so low that people can be in work but still poor. Both the USA and the United Kingdom have used tax credits since the 1970s in order to prevent people being caught in the “unemployment trap” or the “inactivity trap”. Over the past 15 years, tax credits have become very popular and have now been introduced in 17 OECD countries. Although the effects are not clear-cut for those who already have a job (as a result of the income effect)<sup>45</sup>, empirical studies show that the overall effect is positive. The studies also indicate that poverty is dramatically reduced for those who are in work and that work-related tax credits are comparatively effective.<sup>46</sup>

There are lots of different ways of structuring a tax credit. The most common form is where the countries require a certain number of hours’ work or a certain minimum income in order for a person to qualify for the tax relief. In many countries, the size of the tax relief is also linked to the number of children and the family income. The most common method is for the tax relief to be reduced or removed completely when income reaches a sufficiently high level. This means that the tax credits used to avoid the “unemployment trap” and the “inactivity trap” will instead aggravate the “poverty trap” and risk locking individuals into low wages and poverty. There are therefore many factors to take into account when structuring this kind of tax credit.

The United Kingdom has a great deal of experience in tax credits and has tried several different structures. Working Tax Credit has been provided to couples with children if they have combined total working hours of 30 hours per week, with one person working at least 16 hours. Child Tax Credit has been specifically targeted to combat child poverty. This structure has resulted in several different types of credits and benefits being combined and has made the system unwieldy. In order to simplify the complicated threshold and marginal effects, therefore, the British government proposed a new Universal Credit (UC) in 2010. UC was proposed to replace six different benefits and tax

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45 If income taxes are reduced, people do not need to work as many hours in order to earn the same income as before, i.e. lower tax also provides an incentive to work less.

46 See section 2.4 “In-work tax credits or benefits” in OECD (2011), pages 67–85.

credits (including unemployment benefit, housing benefit, Working Tax Credit and Child Tax Credit) and it is now gradually being introduced in the country.

Sweden chose a model where income from employment rather than the number of hours worked forms the basis of the in-work tax credit (as in Belgium, Denmark, Finland, etc.) and decided that children should not be part of the equation (as in Denmark and Finland), both in order to keep the in-work tax credit as simple as possible but also because these countries have systems of separate taxation. Both Sweden and Denmark provide tax relief high up the income scale in order to also provide an incentive to work more hours; in Sweden up to an annual income of SEK 300,000 (approximately EUR 32,000) and in Denmark up to an annual income of DKK 320,000 (approximately EUR 43,000). In Sweden, older people who work receive an enhanced in-work tax credit (from the year they will be 66). Several other OECD countries also have special in-work tax credits for older workers.<sup>47</sup>

The in-work tax credit in Sweden, Denmark and the Netherlands is structured in such a way as to provide a proper incentive to be active on the labour market and also to encourage those who already have a job to work more hours.<sup>48</sup> The aim has been for the in-work tax credit to have a broad effect for large groups. In countries such as Sweden and Denmark, where there is a relatively even distribution of income, this tax credit has a significant impact on the budget. The Swedish in-work tax credit had the largest budget impact of all tax credits in the OECD, equivalent to 2.1 per cent of GDP in 2009. In the Netherlands it equated to 1.7 per cent of GDP, while in Denmark it was just under a third of the Swedish figure.

**IT IS IMPORTANT THAT IT IS WORTHWHILE WORKING (RI 2).** *We note that Sweden has been successful in motivating people to become active in the labour market. As shown in Figure 5, Sweden had the highest labour market participation of all EU countries and OECD countries with the exception of Iceland in 2014. The Swedish in-work tax credit has been key to this success. The threshold*

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47 See Table 3.1 in OECD (2011), pages 101–111.

48 See “Sverige inte ensamt om jobbskatteavdraget” (Sweden not alone on the in-work tax credit), Ekonomifakta 2010-06-09, [www.ekonomifakta.se](http://www.ekonomifakta.se), for a country comparison.

*effects have reduced considerably, which, among other things, should have been a reason for the increase in the labour force despite the fact that employment fell as a result of the financial crisis. The Fiscal Policy Council also attributes “a significant effect on employment” to the in-work tax credit.<sup>49</sup> When the tax system supports more work, it has a major effect on the choices people make.*

*It can be noted that the female labour market participation in Sweden was among the highest of all OECD countries. In order to be able to extend the working life (RI 6), the tax systems need to change in countries that have joint taxation and deductions for family members, while the opportunities for high-quality childcare must also be increased.*

### 3.4 UNEMPLOYMENT COMPENSATION

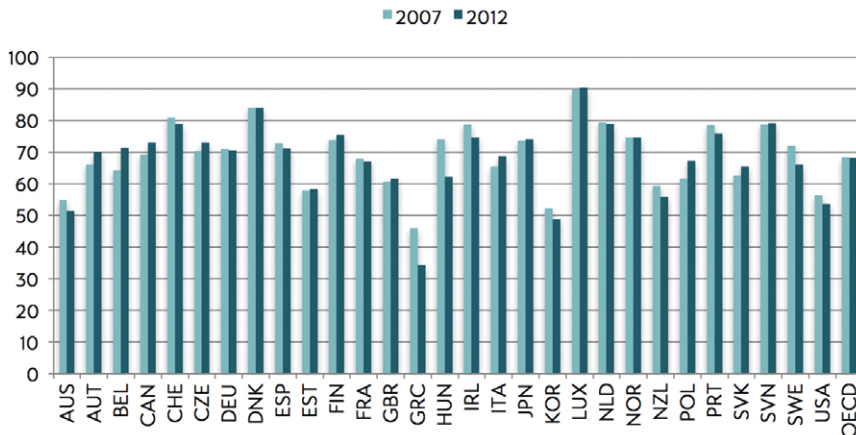
The threshold and marginal effects are not only affected by income taxes and in-work tax credits, but also by the size of the various transfer payments and benefits. It is important that both unemployment insurance and illness insurance are structured in such a way that people return to work as soon as possible. Figure 9 shows the compensation rates, in other words the proportion of net income from work that is compensated for in the event of unemployment (as a percentage).

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49 See Finanspolitiska Rådet (2014), “Svensk finanspolitik, Finanspolitiska Rådets Rapport 2014”. (Swedish Fiscal Policy, Fiscal Policy Council Report 2014), page 89. [www.finanspolitiskaradet.se](http://www.finanspolitiskaradet.se)



**FIGURE 9: COMPENSATION RATES (NET) IN THE EVENT OF UNEMPLOYMENT, 2007 AND 2012**



**Source:** OECD Tax-Benefit Models, OECD (2015a), page 315.

The rate of reform in this area has been quite modest over the past 15 years and this has been particularly noticeable since the financial crisis. In Sweden, Greece and Hungary, for example, the compensation rate in the event of unemployment has fallen, while in countries such as Austria and Belgium it has risen. The figure provides an explanation for why Denmark has large threshold effects despite a relatively large in-work tax credit. The compensation in the event of unemployment in Denmark is among the highest in the OECD. The compensation rate was 90 per cent in Luxembourg and 84 per cent in Denmark in 2012. The economic incentives to enter the labour market is consequently lower in Denmark than it is in the other Nordic countries.

Many countries have made significantly more changes to their compensation in relation to long-term unemployment than short-term unemployment. Figure A2 (Appendix 1) shows how the compensation rates for long-term unemployment have changed between 2001 and 2012. Denmark is a country that stands out – the compensation rate there for people who had been unemployed for five years was 85 per cent at the beginning of the century. This has reduced

significantly and is now below 70 per cent for the long-term unemployed. The compensation rate for the long-term unemployed has also been reduced in Sweden, but from a lower level. The average for the OECD as a whole was also lower in 2012 than in 2001, but this level is low, at a compensation rate of 50 per cent.

Many countries have done considerably more than reduce compensation in order to increase the incentive to work. The requirements in order to qualify for unemployment compensation have been tightened up and combined with job-seeking requirements. The sanctions system has also been tightened up and the opportunity to accumulate compensation days in the event of repeated short periods of unemployment has been reduced. Swedish unemployment insurance was fundamentally reformed during 2006–2008 in order to provide clear incentives to work.

When benefits systems are tightened up, there is a risk of the unemployed transferring to other systems, such as illness insurance or early retirement. It has previously been common in many countries to leave the labour force and never return when economic downturns have been deep and long lasting. This did not happen during the financial crisis, however, and instead the labour force has continued to increase in several OECD countries. In its latest forecast, however, the OECD states that the crisis may have suppressed the supply of labour in the euro area. It also names Denmark, Ireland, Portugal and the USA as examples of countries where unemployment has reduced by more than employment has increased.<sup>50</sup> This has been particularly evident in the USA ever since the financial crisis.

Reforms have been implemented in order to reduce the risk of the unemployed moving to other compensation systems, such as illness insurance. It can be noted that as much as a third of the reduction in the labour force in the USA corresponds to an increase in people with reduced work capacity.<sup>51</sup> In its recommendations, the OECD states that the Nordic countries must get better at ensuring that only those who qualify through chronic illness or disability

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50 See page 34 of OECD (2015a).

51 Information based on people's own reporting of reduced work capacity. See page 43 of OECD (2015a).

with reduced work capacity receive illness or activity compensation (previously early retirement). Sweden implemented a major sickness insurance reform in 2009 but is challenged by the OECD to review the terms of insurance in the latest issue of “Going for Growth” in 2015.<sup>52</sup> Denmark is highlighted by the OECD as a positive example where they have focused on rehabilitation measures in order to achieve a flow back to the labour market.

**IT IS IMPORTANT THAT THE BENEFITS SYSTEM IS TIGHTENED UP (RI 3).** *It is just as important to ensure that those who are not working temporarily, for various reasons, get support as it is to structure compensation so that it does not reduce the incentives to return to work.*

*It is of course difficult to determine what the levels of compensation from different insurance systems should be, but we can confirm that the threshold effects and marginal effects are high in many countries. The OECD states that the rate of reform has been low since the financial crisis and that growth in the economies will not accelerate. We believe that adjustments to the benefits system and a tax system that encourages work are the most important steps to take in order to increase potential growth.*

### 3.5 LABOUR MARKET PARTICIPATION OF OLDER PEOPLE

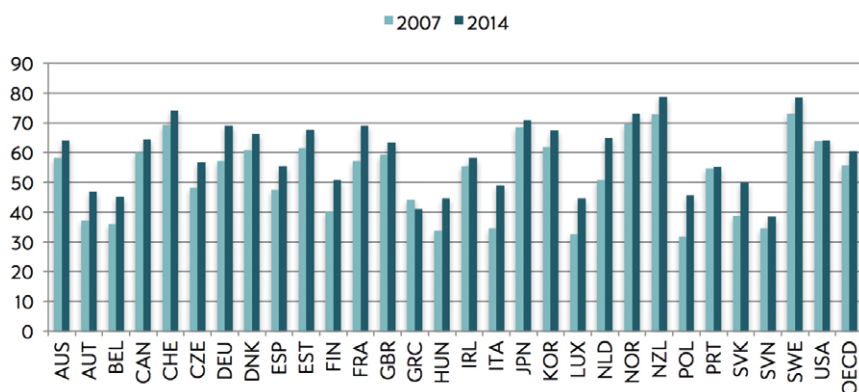
The element of the social debate about work that will change the most in the future is the view of older people’s capacity for work. The supply of labour among older people is influenced by a number of factors, but empirical studies show that economic incentives are very important. On average, the retirement age is relatively low in most OECD countries and labour market participation after retirement age is low. Figure 10 shows the labour market participation for the 55–64 age group. The labour market participation of older people in Sweden is among the highest in the OECD countries, but since the financial crisis the labour market participation of older people has fallen in several oth-

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52 OECD (2015a).

er OECD countries.<sup>53</sup> Italy and the Netherlands have seen the largest increases in the labour market participation of older people between 2007 and 2014.

**FIGURE 10: LABOUR MARKET PARTICIPATION OF PEOPLE 55–64 IN 2007 AND 2014 AS A PERCENTAGE OF THE POPULATION AGED 55–64**



**NB:** Break in the series for Germany, Belgium and the OECD which was linked together between 2011 and 2012 when labour market surveys began to be carried out monthly.

**Source:** Statistical Annex, Table C, OECD (2015c).

The decision to leave the labour market and retire is strongly affected by economic incentives. Higher tax on earned income, for example, reduces the return from continuing to work. However, it is not just income from work in relation to pension income that affects the decision, but also the so-called “pension wealth”, which depends on the structure of the pension system and the tax system.<sup>54</sup> Continuing to work has either a negative or a positive effect on pension wealth; a negative from the opportunity cost of not drawing a pension or if the

53 Iceland had the highest labour market participation among older people in 2007 (86 per cent) and in 2014 (87 per cent).

54 Only if a pension system is actuarially neutral will continuing to work have no effect on pension wealth, as deferred pension income is then fully compensated by a higher pension in the future.

person is prevented from drawing a pension whilst working and a positive if continuing to work provides a higher pension. Depending on how the pension system is structured and what changes are made, the net effect will be either positive or negative. The taxation of pension income also affects the decision to stop or continue working. A higher tax on pension income means a lower opportunity cost of continued working, while at the same time income – the increase in pension wealth – also becomes lower. The net effect on pension wealth is determined by the progressiveness of the tax system.

The OECD estimated an indicator, based on data from 2008, which collated these effects in 30 OECD countries. The indicator, which is called FIR (“financial incentives to retire”), consists of three components: tax on earned income, tax on pension income and change in pension wealth. Figure A3 (Appendix 1) shows FIR for a man with average wage who is considering deferring retirement from the age of 60 to 65. In most countries FIR was high, with little financial incentive to continue working. In Greece, Luxembourg and Belgium, 60 per cent or more of income in real terms was lost because of the tax system, with a negative net effect on pension wealth. In the majority of countries, however, pension wealth increased with continued work. Of the Nordic countries, the incentive to continue working was lower in Denmark than in Sweden, Norway and Finland.

On average, in the OECD 67 per cent of the 55–59 age group were employed in 2014, but the proportion was significantly lower in older age groups. There is therefore considerable scope for increasing employment among older people. In the Nordic countries, the rate of employment for the 65–69 age group was highest in Norway in 2014. In Sweden, more than 80 per cent of the 55–59 age group were employed.<sup>55</sup>

### 3.6 CHANGES TO PENSION SYSTEMS

Since the OECD made its FIR estimates, many countries have reformed their pension systems, in many cases as a consequence of the financial crisis. In 14 countries the focus has been on making the systems financially sustainable by

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55 See Figure 3.4 in OECD (2011), page 103.

raising the retirement age, restricting opportunities to take early retirement, increasing the financial incentives to work after retirement age or improving opportunities to draw a pension whilst continuing to work.

In several countries the retirement age has been raised to 67 in the slightly longer term: in Belgium this comes into force in 2030, in Canada in 2029 and in the United Kingdom in 2028. In Ireland the retirement age has been increased to 67 from 2021 and to 68 from 2028. In Australia the retirement age is increasing to 67 in 2023 and a further increase to the age of 70 in 2035 is currently being discussed. In the Netherlands the retirement age for occupational pensions was increased from 65 to 67 from 2014, while the retirement age for the basic pension will be raised to 67 from 2021. In contrast, Germany temporarily lowered the retirement age in July 2014 from 65 to 63 for those who have been in work for 45 years. From 2016 the retirement age will rise to 65 again at a rate of two months per year.<sup>56</sup> In Sweden, on the other hand, the retirement age is flexible and permanent employees have a legal right to continue working at their employer up to the age of 67. Extending this right to 69 years of age is currently under discussion. For occupational pensions, however, a retirement age of 65 is normal in Sweden.

The employment of older people is not only affected by the structure of the pension system and the tax system. Other systems, such as unemployment insurance, sickness insurance and opportunities to take early retirement also affect employment. Many countries have restricted the opportunity to take early retirement. In Denmark, the retirement age for early retirement is being increased from 60 to 64 in 2023, while a new form of compensation is being introduced for older people with limited work capacity as a result of health problems. In Finland, the opportunity to take early retirement in the private sector is being abolished, and at the same time the age for part-time retirement is being increased to 61. The Netherlands is also phasing out the opportunity for early retirement, while Spain is restricting the conditions for taking early retirement. A new pension system has been introduced in Nor-

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56 See Table 1.A1.1 "Details of pension reforms, September 2013 – September 2015" in OECD (2015f), pages 34–40.

way, which strengthens the link between work and pensions for age groups born from 1954 onwards.<sup>57</sup>

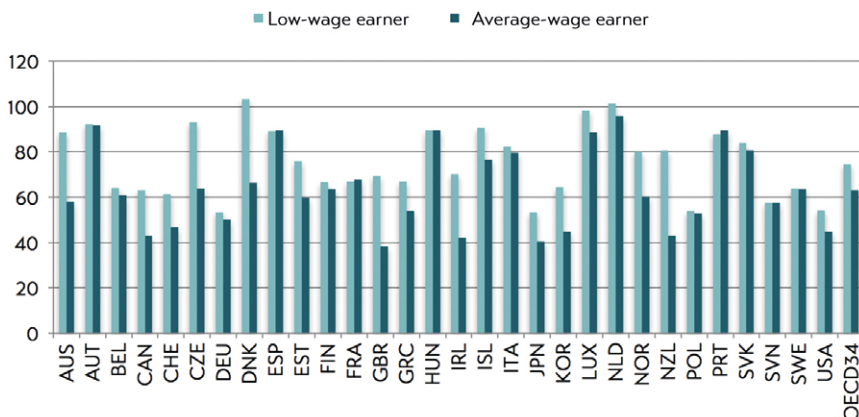
While the incentives to continue working has been made clearer in many OECD countries, other countries have gone in the opposite direction and eased conditions, enabling more people to qualify for retirement. A number of countries have also increased pension payments to weak groups. Countries have also introduced or extended pension rights during parental leave, study leave or unemployment (such as France, for example). A new uniform state pension is being introduced in the United Kingdom in 2016 to replace the previous public systems.

The tax system has also been used to increase pensioners' ability to provide for themselves, despite the fact that it means less incentive to work to an older age. Several OECD countries provide tax reliefs for pensioners. In the United Kingdom, tax on pensions has been reduced and the lump sum that can be withdrawn on retirement increased to 25 per cent in 2015. Tax cuts for pensioners were also introduced in Sweden in 2014. In the OECD as a whole, the compensation rate in the pension system (net after tax) was 63 per cent for an average wage earner (see Figure 11). Low-wage earners generally receive a higher proportion of their previous wage as pension, as most tax systems are progressive. In Denmark, the compensation rate (net after tax) for low-wage earners was the highest in the OECD countries at over 100 per cent, according to the OECD's calculations. Something that naturally does not align well with increased driving forces for older people to continue working.

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57 See also OECD (2015f), page 25.

**FIGURE 11: COMPENSATION RATES IN THE PENSION SYSTEM (NET) FOR AN AVERAGE WAGE EARNER AND LOW-WAGE EARNER STARTING WORK AT THE AGE OF 20 IN 2014**



Source: OECD (2015f) page 28.

Many countries use the tax system to encourage continued working.<sup>58</sup> The most common form is tax credits, which are discussed in section 3.3 above. The tax system is also used to increase demand for older workers (see next section).

**IT IS IMPORTANT TO ENCOURAGE OLDER PEOPLE TO CONTINUE WORKING (RI 7).** *We note that the labour market participation of older people in Sweden in the 55–64 age group is one of the highest in the OECD countries. Economic incentives are a very important part of an older person’s decision on whether or not to retire, although other factors, such as social and medical, also have an influence. There are large economic and social gains to be had here in the form of increased growth and better lives for many older people if more of them are able to work. A large number of changes have been made to pension systems within the OECD since the financial crisis, but many challenges still remain. Long-term*

58 A summary of the tax reductions for older people in 31 countries can be found in OECD (2011). See Table 3.1, pages 108–111.



*sustainability must be ensured, while the pension systems must provide proper protection in old age. It is still possible in many countries, for example, to draw a pension early if you become unemployed at an older age. We believe that these opportunities should be removed. Instead, opportunities for reskilling for continued work should be improved. RI emphasises precisely this mix of increased driving forces to work and support for adjustment. We believe that work must always be encouraged, instead of not working and living off various benefits. The unemployment systems must be reformed so that people remain in the labour market instead of retiring. The sickness benefit systems should also be structured so that they support a return to work, while at the same time providing security for those who have little or no work capacity.*

## 4. TAXES AND SUBSIDIES TO INCREASE THE DEMAND FOR LABOUR

*The section deals with RI 5 “All jobs are needed”.*

As we have seen above, taxes are an important policy instrument for increasing the driving forces to work. Low-wage earners are particularly sensitive to tax changes, as their threshold effects are high. They are also affected by high tax wedges, as employer's contributions and other payroll taxes can make labour costs high despite a low wage. The OECD confirms that the effects can be significant, but that empirical studies have not provided entirely unequivocal results with regard to how taxes affect employment and unemployment, but that it “appears reasonable to conclude that labour taxes do have a significant impact on unemployment”.<sup>59</sup> In 17 studies reproduced by the OECD, there were only five that did not show any effect on unemployment. In a study containing data from 21 OECD countries, it was calculated that unemployment could be reduced by 2.8 percentage points if the tax wedges were reduced by 10 percent-

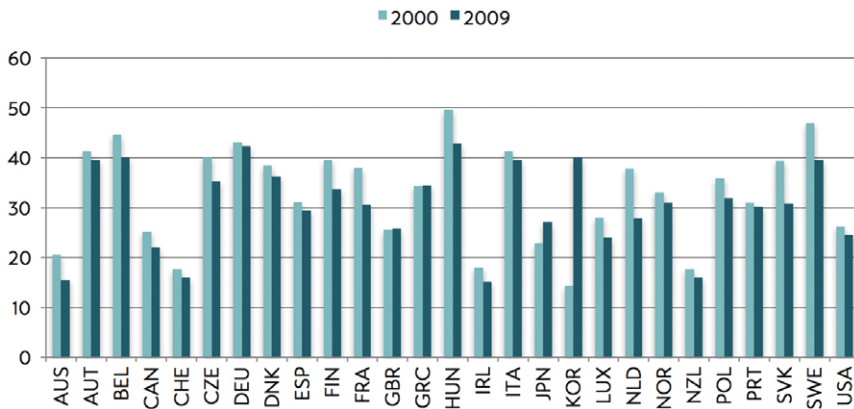
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59 Quote from page 28 of OECD (2011).

age points in the average OECD country.<sup>60</sup> A number of studies also report a relationship between the tax wedges and the number of hours worked.<sup>61</sup>

Many countries have reduced the tax wedges for low-wage earners. The average reduction in the OECD is a couple of percentage points. The tax wedge measure includes income taxes, social security expenses paid by the employee and employer's contributions. Figure 12 shows the tax wedges for those with a wage equivalent to half the average wage. In Sweden, the tax wedges were reduced considerably between 2000 and 2009, as was also the case in the Netherlands and France. In Germany and Austria, the tax wedges have only been reduced slightly. They have even been reduced in countries with low tax wedges, such as Australia and Ireland.<sup>62</sup>

**FIGURE 12: AVERAGE TAX WEDGE FOR A PERSON WITH 50 PER CENT OF THE AVERAGE WAGE, 2000–2009**



**Source:** OECD Taxing Wages models, OECD (2011), page 61.

60 Bassanini and Duval (2006), page 25 of OECD (2011).

61 See for example Alesina et al (2005), page 31 in OECD (2011).

62 Between 2008 and 2013, there has been no significant change in the tax wedges. See OECD (2015a), Figure 6.3, page 316.

In many countries, social security expenses constitute a large proportion of the tax wedge. These can be social security expenses that are paid by the employee or the employer. Reducing employer's contributions is a common method of increasing demand for the low-wage earners. According to a summary from 2010, 14 OECD countries use some form of tax reductions to influence demand. In 11 of these 14 countries, employer's contributions have been reduced. Some countries, such as Belgium, have several systems with reductions in employer's contributions. In Sweden, employer's contributions were lower for young people (under the age of 26) at the time of the OECD's summary, in Germany they were lower for the long-term unemployed, while in Finland and France the employer's contributions were reduced generally and covered everyone.<sup>63</sup>

Several countries have tax reliefs for employers to encourage them to employ older workers. In most cases, employer's contributions are used to reduce labour costs; the employer's contributions are either lower for older workers (as in Sweden), removed completely (as in Ireland or in Sweden for those born before 1937) or are reimbursed (as in Luxembourg).

If the reductions in employer's contributions are too general, this can have an unjustifiably large impact on the budget. Some of the labour force would inevitably have been employed even if there had been no tax relief (known as "deadweight losses"). Another effect is that a person who qualifies for lower employer's contributions may crowd out another person who does not receive these tax reductions (so-called "crowding out effects"). The reduction of employer's contributions can also result in employers being reluctant to increase wages where this would mean losing the reduced employer's contributions (so-called "lock-in effects").<sup>64</sup> It is therefore important to formulate targeted reductions in employer's contributions that can apply to young people, the elderly or other specific groups for example.

In Sweden, so-called "New Start Jobs" were introduced for those who had been outside the labour market for at least one year (six months for young

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63 See Table 2.2 in OECD (2011), page 87.

64 It was for this reason that the Swedish Alliance government chose, among other things, to place greater emphasis on lower income taxes, which we believed had a more lasting job-creation effect.

people). The target group was the long-term unemployed and the long-term sick. Newly arrived immigrants could also get New Start Jobs within three years from residency. It is common for the employer to receive a subsidy equivalent to the employer's contribution for a maximum of five years, but for older workers this is given for ten years. New Start Jobs were handled by the Swedish Public Employment Service, but could just as easily have been administered by the tax authorities. Other forms of subsidised employment are also a feasible way of increasing demand for specific groups.

Another way of influencing demand is to subsidise a specific market. This has been done in several EU countries for domestic services, construction sector services and other private services. One reason for this has been to move services from the informal sector to the formal sector. There is a great deal of potential for job creation within personal service and domestic services; the demographic trend, greater gainful employment of women and increasing prosperity create demand for such services. A number of different tools are used in order to open up the market on the formal economy; the price is subsidised by reducing VAT (as in the Netherlands and France) or by removing employer's contributions for people who employ staff in their home (as in France and Spain). The most common method of reducing the price is through tax allowances, as is the case in France, Belgium, Sweden, Finland, Luxembourg, Italy, Germany and Denmark.<sup>65</sup>

Sweden introduced an allowance for domestic services in 2007 called "RUT". This was supplemented by the previously used "ROT" allowance in 2008. The ROT allowance applies to refurbishment and was combined with the RUT allowance to form a "house allowance". The tax relief was 50 per cent of the labour costs including VAT up to a maximum of SEK 50,000 (approximately EUR 5,500) per person and SEK 100,000 per household per year. The services had to be provided by a registered company and the services had to be

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65 For a description of the systems, see Farvaque, N.(2013), "Developing personal and household services in the EU. A focus on housework activities", report from DG Employment, Social Affairs and Social Inclusion, January 2013, ORSEU.

invoiced.<sup>66</sup> Since 1 July 2009, the service provider deducts the tax rebate directly from the invoice so that the customer does not have to administer the allowance (the so-called “invoice model”). By 2010, 850,000 people had already received a tax allowance for these services, which corresponds to 11.9 per cent of Swedish households. The largest proportion of allowances was for ROT services, although demand for RUT services has steadily increased: 320,000 people received the tax allowance for RUT services in 2010 and 390,000 people received it in 2011.<sup>67</sup> In Sweden 4,000 jobs were generated in domestic services after two years (in 2009) and in Finland, using a similar solution, 1,000 full time jobs after four years (in 2004). Employment in domestic services has since then continued to grow in Sweden. In 2015 it increased by more than 2,000 people to 22,515 employed.<sup>68</sup> One explanation for the lower figures in Sweden and Finland compared with other countries is that they only subsidise domestic services, while in many other countries private care of the elderly is also subsidised.<sup>69</sup>

The reform is very important, however, as it creates jobs in a sector that was previously outside the general labour market. Instead, there are now jobs for people who in many cases would otherwise have found it difficult to enter the labour market.

Estimates of the jobs created in other countries that subsidised domestic services and other personal services show that 330,000 jobs were created in France (equivalent to 50,000 full-time jobs) during the period 2006–2008. In Belgium, 100,000 jobs have been created since 2004. In 2011, there were 150,000 people working within the Belgian system, which was equivalent to 56,000 full-time jobs. In Germany, 240,000 people worked in a mini job in private households in 2011.<sup>70</sup>

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66 A number of changes to the regulations on the RUT and ROT allowances were introduced in Sweden on 1 January 2016. These included reducing the ROT allowance to 30 per cent and also halving the RUT allowance.

67 See the description of the Swedish system in Farvaque, N. (2013), *op.cit.*, pages 37–38.

68 “Lägesrapport RUTQ1 2016” (Progress report RUTQ1 2016). [www.almega.se](http://www.almega.se)

69 See page 7 of Farvaque, N. (2013), *op.cit.*

70 A “mini job” is a job where the employee is able to work a few hours a day without cumbersome rules and taxes. The employer does not have to pay taxes and social security contributions. There are currently 7.4 million Germans who have a mini job, over 5 million of which are women. The payment ceiling for a mini job is EUR 450 per month, with average pay considerably lower than this. [www.europaportalen.se](http://www.europaportalen.se)

**ALL JOBS ARE NEEDED (RI 5).** *RI is based on the view that all jobs are needed if everyone who can and wants to work is to have a job. Tax reliefs are a way of making work accessible, even for those with a low level of education and lower productivity. We know that taxes can affect the demand for labour. During the financial crisis, many countries introduced temporary tax reliefs in order to increase demand and prevent unemployment from becoming permanent. Various institutional factors, such as wage structures, influence what the effects of the tax system are. The equality efforts and distribution ambitions of countries also affect how a tax system is structured. The subsidisation of domestic and other services that are provided in the informal sector in many countries can help to establish a formal market. It is then important that wages and other working conditions are regulated in order to avoid the “working poor”.*

## 5. LABOUR MARKET POLICY FOR EMPLOYABILITY

*This section covers RI 4 “Strengthen the labour force”.*

The key to preventing unemployment from becoming permanent is to stimulate the unemployed through labour market policy. With taxes and benefits that increase the incentive to work (section 3), and taxes and charges that increase demand (section 4) in place, measures are also needed to improve matching on the labour market. Everyone must be presented with expectations and opportunities to increase their employability, based on their circumstances. Expenditure on labour market policy varies greatly between countries. Figure A4 (Appendix 1) shows countries’ investments in labour market policy in 2012. The countries that spend the most are in Europe, with the Nordic countries of Denmark, Sweden and Finland at the top. The Netherlands, Germany and the United Kingdom invest a lot in employment services, but less in other activation programmes. Denmark stands out as the country with the highest expenditure (almost 2 per cent of GDP). This is because of “flex jobs” for people with reduced work capacity and “job training”, both of which are subsidised employment.



The OECD reports on a new framework for labour market policy in its latest employment report and considers three principles for an activation strategy: it must be characterised by motivation, employability and opportunities.<sup>71</sup>

First of all, people need to be motivated to work. This particularly includes maintaining the motivation of those who are starting to become disillusioned. This means both increasing the incentives to work (“making sure that work pays”), which is discussed in section 3 above, and improving the job-seeking process.

Secondly, measures such as coaching and training are needed for those who do not have the skills required on the labour market, in order to make people employable.

Thirdly, labour market policy should also focus on the demand side in order to improve opportunities for work, particularly for neglected groups. Measures such as programmes for starting up new companies, special wage subsidies and direct job programmes can be handled within labour market policy and supplement the general demand policy, in the form of reducing employer’s contributions for example, as discussed in section 4 above. As the rate of change in the economy and on the labour market accelerates, it is becoming increasingly important to strengthen the labour force.

## 5.1 JOB-SEEKING

Most OECD countries have developed job-seeking programmes where the unemployed is to report job-seeking in some kind of activity report at least once a quarter. It is also common for the countries to have a system of sanctions that is linked to the degree of activity. Studies show that monitoring job-seeking significantly increases the degree of re-employment, as do warnings of future sanctions or the imposing of sanctions in the form of withdrawn benefits.<sup>72</sup> Personal guidance or coaching is an important part of a successful job-seeking programme, particularly for those who are far away from the labour market.

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<sup>71</sup> See Chapter 3 of OECD (2015c), pages 105–151.

<sup>72</sup> See pages 121–122 of OECD (2015c) for references.

This involves identifying at an early stage those people who need more guidance and measures to improve their skills in order to make them employable.

Profiling is a tool that can be used in order to identify at an early stage those job-seekers who need additional support. Australia has a well-developed profiling instrument that includes external factors, based on various data sources (such as age, sex, education, residential area), individual factors, based on a questionnaire completed by the job-seeker, as well as expert assessments of medical and psychological factors and other factors that are important in terms of the person's opportunities to find a suitable job. The profiling instrument in Australia is structured in such a way that it can be used at the same time to evaluate the independent agencies on the labour market, as Australia does not have a national employment service like many other countries do. In other countries, such as Austria and Denmark, job-seekers are classified in different groups at the beginning of their period of unemployment, although there is no formal profiling instrument. Denmark uses a matching model that is based on three groups: unemployed and ready to work immediately, unemployed who can benefit from labour market policy measures, and unemployed who are passive.

Job-seeking programmes have slightly different structures in different countries. At the beginning of a period of unemployment, many job-seekers are relatively employable, but over time more and more unemployed people need measures to improve their skills. Intensive coaching early in the period of unemployment, on either a voluntary or compulsory basis, is an important tool to help determine how the job-seeker's skills should be developed in all areas. Studies show that it is not always the coaching itself that increases employability, but the actual planning of an intensive coaching period that is effective. This is because of so-called "threat effects", in other words, the job-seekers would rather get away from the employment service and into a job than take part in coaching. The OECD mentions a number of studies that demonstrate this effect.<sup>73</sup>

The important thing is that the coaching is individually structured and of

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73 See references on page 125 of OECD (2015c).

high quality. Studies show that personal service, a labour market policy focused on work first and selective referrals to labour market programmes (full time) represent a successful strategy. Both Denmark and France report good effects from intensive coaching. In Nevada, USA, an experiment was carried out with intensive coaching, with positive results. The coaching aimed, among other things, to review the skills and experience of the job-seeker in order to better sell the job-seeker's skills on the local labour market.<sup>74</sup>

## 5.2 SKILLS DEVELOPMENT

Studies show that the development of special skills often has a relatively large effect on employment and incomes. A study in the USA showed that job-seekers from low-wage jobs who took part in labour market training for high-wage jobs within sectors that had high demand, had increased their incomes by almost 30 per cent one or two years later compared with those who had not taken part in any training. Training involves job-seeker courses, some professional work placements and classroom teaching.<sup>75</sup> General studies can also improve job opportunities. A Swedish study shows that “Kunskapslyftet”, (Knowledge Lifting), which was the largest labour market policy programme in Sweden during the late 1990s, had positive effects in the very long term. The incomes of women who had not completed secondary school but were given the opportunity to study for a year had increased by 10 per cent by 2010. The authors of the study conclude that those who have participated in a training programme have greater opportunities to adapt to changing demand and work conditions.<sup>76</sup>

German studies also show greater employment effects of training after more

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74 See OECD (2015c) page 126.

75 The term training is used here to mean labour market training. According to the OECD's database, training includes courses in job-seeking, work experience with some training content, classroom teaching, preparation for apprenticeships and special support for young apprentices. The content can be basic training, upgrading skills with or without certification and in some cases professional training. See Box 3.7 in OECD (2015c), page 134.

76 See Stenberg, A. and O. Westerlund, (2014), “The Long-Term Earnings Consequences of General vs. Specific Training of the Unemployed”, IFAU Working Paper, No 2014:3.

or less long-term “lock-in effects” in the beginning.<sup>77</sup> Weighed against this is a German study from 2008 that shows that all training (seven different programmes during the period 2002–2003) failed to improve employment opportunities over 2.5 years. The authors of the study believe that the effectiveness of training has worsened during the first decade of this century compared with the 1990s.<sup>78</sup>

### 5.3 REFERRALS AND COMPANY CONTACTS

One measure that also has a good effect is the use of the formal referrals of job-seekers to vacant positions. The employment service must be careful in its choice of job-seekers for vacant positions, however, so that employers are not deterred from processing these applications. In Finland, the labour market policy was changed in 2014 and focused on using referrals to a much greater extent than before, following the principle that only those who best met the requirements should be referred. The result was a shortening of periods of unemployment for young unemployed people, but not for those over the age of 50.<sup>79</sup>

Good relations with employers are the foundation of improved matching on the labour market. In countries such as Finland, France and Sweden, caseworkers work on both job-seeking and company contacts. One disadvantage of this model is that a lot of time and resources are put into the job-seeker, as this work is more demanding than the company contacts. In other countries, such as Austria, Germany, the Netherlands and the United Kingdom, the caseworkers specialise in either company contacts or job-seeking. In some cases, the employment services are pro-active and find vacancies through extensive contacts with employers. In Australia, for example, they use so-called “reverse marketing” by actively marketing an unemployed person to an employer despite the fact that there is no vacancy.

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77 If no requirements are made for continued job-seeking during participation in labour market policy programmes, there is a risk of extending the period of unemployment. This is called a lock-in effect.

78 See Box 3.7 in OECD (2015c), pages 132–134.

79 See OECD (2015c) page 126.

For small and medium-sized companies, the employment service can help to supply the right skills, as these companies often do not have their own HR department. In the United Kingdom, there is a large-scale recruitment service for small companies (with fewer than 50 employees), which includes a special support function for business owners, information about the local labour market, the formulation of job advertisements and continued support once the recruitment process has been concluded. Another activity that aids matching is job fairs of various kinds, or recruitment meetings, structured for example in a similar way to “speed dating”, as they are in Sweden. The employment service is often involved in recruitment at large companies. In France, for example, the public employment service has formal agreements with large companies on recruitment support.

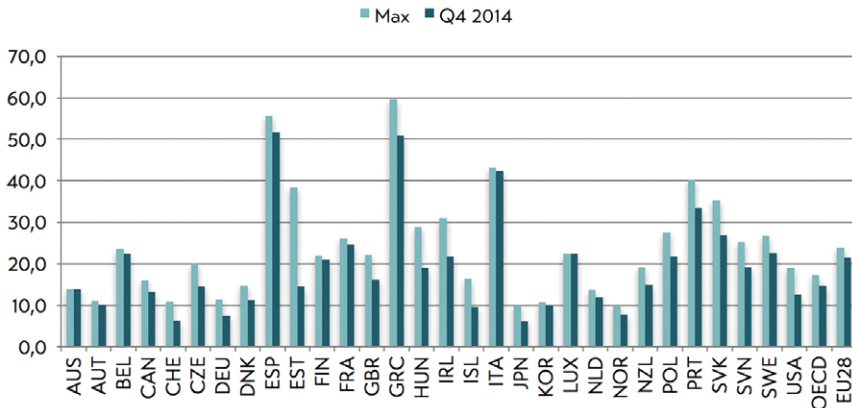
**IT IS IMPORTANT TO STRENGTHEN THE LABOUR FORCE (RI 4) THROUGH AN EFFECTIVE LABOUR MARKET POLICY.** *This becomes increasingly important as the pressure of change in the economy and on the labour market increases. We believe that job-seeking activities, coaching and labour market training, including full-time equivalent work placements (“training”), lead to increased job opportunities, in some cases in the slightly longer term. It is important to reduce the lock-in effects of participation in labour market policy programmes and to require continued job-seeking, particularly if the programme is not full-time equivalent. It is also important that the general education system is able to motivate young people to complete their studies.*

## 6. FOCUS ON SPECIFIC GROUPS: YOUNG PEOPLE AND MIGRANTS

*This section looks at RI 6 “Extend the working life”, RI 9 “Immigrant workers” and RI 10 “Work for asylum seekers and relatives of immigrants”.*

Young people belong to one of the groups for which unemployment has risen the most as a result of the financial crisis (see Figure 13). In some countries, unemployment has reached dramatic levels, including Spain (51.8 per cent), Greece (50.1 per cent) and Portugal (33.4 per cent). Although youth unemployment appears to have peaked and recently fallen, unemployment among young people is considerably higher than it was before the financial crisis.

**FIGURE 13: YOUTH UNEMPLOYMENT Q4 2014, COMPARED WITH THE HIGHEST LEVEL SINCE Q4 2007, AS A PERCENTAGE OF YOUTH (15-24) LABOUR FORCE**



**Source:** OECD (2015c), page 27.

In the Nordic countries, youth employment is highest in Sweden. In Austria, Germany, Denmark and Norway, youth unemployment is below the OECD average. The picture of unemployment needs to be broken down into more detail, as we have shown previously. The OECD notes that the proportion of young people in the labour force in the countries examined has fallen since 2007. If this reduction in the labour force is explained by more young people studying or entering vocational training, this is a positive development, as it improves opportunities for future jobs. Unfortunately, however, the OECD notes that only some of the reduction in the labour force can be explained by young people studying more.<sup>80</sup>

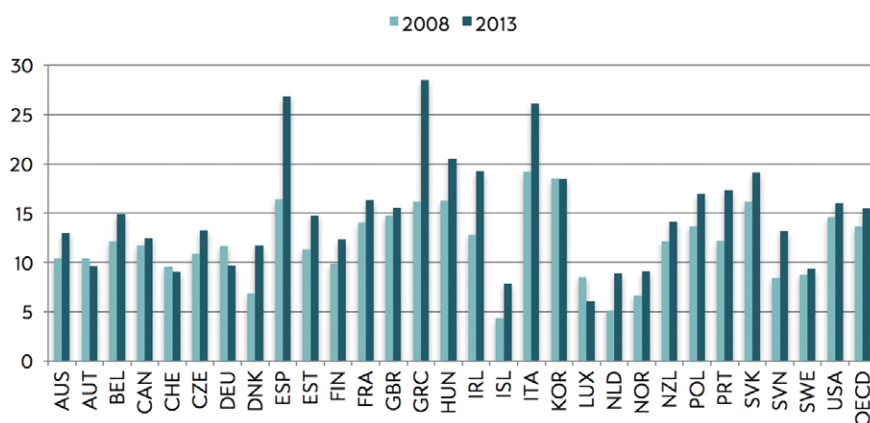
## 6.1 THE PROPORTION OF NEETS IS COMPARATIVELY STABLE

The NEET measure for young people, which indicates the proportion of young people who are not in education, employment or training, has remained comparatively stable in several countries compared with 2008, particularly for the

80 See OECD (2015c), page 27.

young age groups. Greece, Spain and Ireland have seen the largest increase in the proportion of NEETs, along with Italy (see Figure 14). In Sweden, the proportion of NEETs was among the lowest in 2013, at just under 10 per cent, and has not increased significantly since 2008. In Norway, and in the Netherlands, the proportion was even lower. In Finland, Denmark and Iceland, the proportion of NEETs has increased relatively strongly, but still remains below the OECD average. In Germany, the proportion of NEETs has fallen compared with 2008 and in 2013 was just under 10 per cent. The proportion of NEETs also reduced in Austria and Switzerland between 2008 and 2013.

**FIGURE 14: PROPORTION OF YOUNG PEOPLE AGED 15–29 NOT IN EDUCATION, EMPLOYMENT OR TRAINING (NEETS) IN 2008 AND 2013**



**NB:** Figures for Korea are for 2012.

**Source:** OECD (2015d) page 18.

It should be noted that the NEET group is not homogeneous and it can in turn be divided into different sub-groups. Some young people who are registered as unemployed and are seeking a job are both in this group and in the unemployment statistics; these represent around half of the NEETs in many



countries, such as Denmark, Sweden and Finland.<sup>81</sup> Young people who are registered with an employment service, for example, are more active on the labour market than other NEETs.

Many countries have focused on training and labour market policy in order to improve the labour market situation of young people, but the rate of reform has slowed as the economic downturn linked to the financial crisis has become more protracted. While demand in the economy has been checked, which has aggravated the situation for young people, it also takes time for the training reforms implemented to produce results. Other measures employed by countries include reductions in employer's contributions, which are discussed in section 4 above.

The OECD is seeking greater cooperation between all parties involved on the labour market: governments, labour market parties, interest groups and government authorities. Reforms are needed that cover several areas and policies should focus on developing the skills of young people and should take into account their individual needs.<sup>82</sup>

The difference between the statistics on NEETs and on youth unemployment underlines the importance of making a deeper analysis of who is working and who is not working, something that was discussed in section 2. Sweden, for example, is relatively successful in terms of NEETs, which is a more effective measure than youth unemployment for illustrating outsidership.

## 6.2 A EUROPEAN YOUTH GUARANTEE

In February 2013, the EU countries decided to establish a European Youth Guarantee in order to combat the high level of youth unemployment. It was decided that young people under the age of 25 should be offered work, continued education, traineeship or apprenticeship within four months of leaving formal education or becoming unemployed. The Youth Guarantee applies to all young people, whether or not they are registered as seeking work.

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81 See Figure 1.6 in OECD (2015c), page 28.

82 OECD (2015d) page 19.

Finland, which inspired this EU initiative, has had a youth guarantee since 2005 for young people under the age of 25. This was extended in 2013 to apply to all young people under the age of 30 who had completed their studies and had not found work or continued in education. The programme is considered a success and had placed 83.5 per cent of Finnish young people in a job, apprenticeship or training in 2011.<sup>83</sup>

According to the European Commission, no reforms have been introduced as quickly as the Youth Guarantee, although critics say that the resources are inadequate and that the process has been long and drawn out. The Youth Guarantee is financed using money from the European Social Fund. The EU set aside EUR 6 billion for implementing the Youth Guarantee on 1 January 2014 and a further EUR 2 billion within the Youth Employment Initiative, YEI. The ILO (International Labour Organisation) has calculated, however, that an effective youth guarantee would cost EUR 21 billion.<sup>84</sup>

France introduced a youth guarantee as early as October 2013 in Bondy, a suburb of Paris, where, among other things, young people were to be given a job or apprenticeship at the National Assembly and other legal institutions. The youth guarantee has proved successful in this suburb and is considered to be “the best tool yet for tackling youth unemployment”, according to the municipality’s advisers. The aim is for all of France to be covered by the Youth Guarantee scheme in 2016 and for this to support 100,000 young job-seekers every year.<sup>85</sup>

Things have progressed slowly for the EU as a whole and no assessments have been made of the youth guarantees. The European Commission believes though that the measures have delivered results and points out that 500,000 young people have been given a job during the past year.<sup>86</sup>

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83 Barbière, C. (2014), “EU’s ‘Youth Guarantee’ scheme slacking”, 23 May 2014. <http://www.euractiv.com/sections/social-europe-jobs/eus-youth-guarantee-scheme-slacking-302320>

84 Barbière, C. (2015), “Youth Employment Initiative under threat in 2016”, 5 November, 2015. <http://www.euractiv.com/sections/social-europe-jobs/youth-employment-initiative-under-threat-2016-319212>

85 Barbière, C. (2014), *op.cit.*

86 Barbière, C. (2015), *op.cit.*

**IT IS IMPORTANT TO EXTEND THE WORKING LIFE (RI 6)**, not just at the upper end of the age range, but also getting young people to enter the labour market at an early stage and soon after they have completed their studies. There must be clear driving forces to work at an age when many young people feel they have several options. We can see that although youth unemployment has started to fall, the proportion of young people not in education, employment or training (NEETs) remains relatively unchanged. We need to motivate young people to complete their basic education and to activate young people in their meetings with employment advisers. Sweden has previously used youth ambassadors, for example, who were in the suburbs themselves and were able to meet young people on their own terms. Reducing employer's contributions is one way of improving the opportunities for young people to get a job. We also know that when the economy starts to recover, it is young people who find jobs first, provided that their unemployment has not been of such a length that their initiative and skills have been worn away.

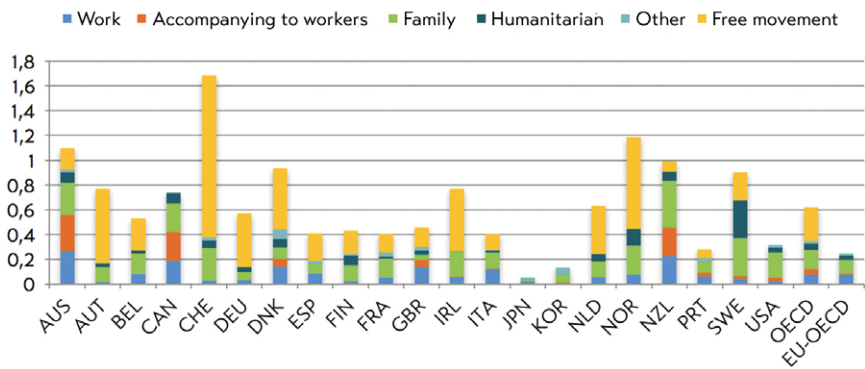
## 6.3 INCREASED MIGRATION

Migration is increasing in most OECD countries, with a growing number of people crossing borders into another country because of persecution, for family reasons or to find work. The term migrants includes quota refugees, other asylum seekers, relatives of immigrants, immigrant workers and EU migrants. In 2013, 30 per cent of migrants in the OECD-area came from countries with freedom of movement and 35 per cent were migrants with relatives in the country. In 2014, the number of asylum seekers increased by 46 per cent within the OECD area and surpassed 800,000 for the first time since the early 1990s. Migration also reached historically high levels in 2015. The countries that most migrants from outside the EU head for are Germany, the USA, Turkey, Sweden and Italy.

Figure 15 shows the various migrant flows as a percentage of the population. In Switzerland and Norway, migrants from countries covered by freedom of movement are the dominant group. In Austria too, migrants come primarily from countries with freedom of movement. Sweden is the country with

by far the highest level of refugee migration per inhabitant. Of the European countries, the proportion of immigrant workers is highest in Denmark and the United Kingdom. In Sweden, the proportion who come in order to work is small, despite the fact that there has been almost free immigration of workers, even from countries outside the EU, since 2008.

**FIGURE 15: NUMBER OF MIGRANTS AS A PERCENTAGE OF TOTAL POPULATION IN 2013**

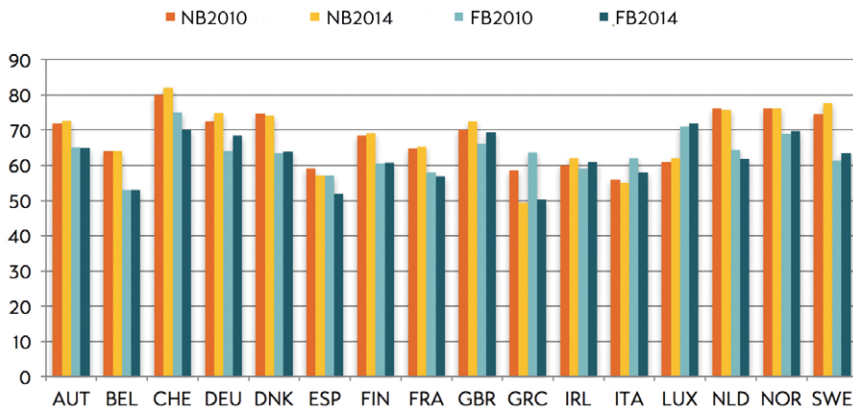


**Source:** OECD (2015e) page 22.

As a result of the financial crisis, unemployment increased for foreign-born workers and has since taken hold in most OECD countries. Employment, on the other hand, has increased for foreign-born workers in line with the trend since 2010. In 2014, the number of foreign-born workers employed increased by four per cent. In countries with jobs growth, such as Germany and the United Kingdom, the labour market situation has improved for foreign-born workers more than it has for native-born workers since 2010 (see Figure 16). The employment rate among foreign-born workers has also increased in Sweden. However, the gap between foreign-born and native-born workers is greatest in Sweden and the Netherlands and was 14 percentage points in 2014. In Denmark, the employment rate for native-born workers fell slightly between 2010 and 2014, while it increased marginally for foreign-born workers. The gap be-

tween native-born and foreign-born workers in Denmark was around 10 percentage points in 2014.

**FIGURE 16: EMPLOYMENT RATE FOR NATIVE-BORN WORKERS (NB) AND FOREIGN-BORN WORKERS (FB) IN 2010 AND 2014 FOR SELECTED OECD COUNTRIES, PERCENTAGE OF POPULATION AGED 15-64**



**Source:** Table 2.A1.1 in OECD (2015e)

Foreign-born young people have been affected disproportionately more by the financial crisis than other groups. On average, in the OECD one in five foreign-born young people is not in education, employment or training. In countries such as Austria, Belgium and Sweden, however, the proportion of NEETs among foreign-born people fell between 2011 and 2014; however, the proportion is still significantly higher than for native-born people.

Many countries have a general labour market policy that focuses on individual needs for support rather than support for a specific group. Most migrants still qualify for support, as in many cases they have a low level of education, or none at all, and have difficulties in supporting themselves. Our experiences in Sweden show the advantages, which the OECD also sees, of a policy that focuses on migrants, as a complement to a general labour market policy. Inadequate

language skills, the lack of a network to be able to obtain an apprenticeship or a job, and limited opportunities for funding to be able to start a company are put forward as reasons why migrants have difficulty establishing themselves on the labour market. The OECD also believes that the public sector should be able to act as a role model and provide migrants with jobs and apprenticeships.<sup>87</sup>

In Sweden, a general labour market policy is combined with special initiatives for migrants. New start jobs, which are discussed in section 4 above, are a way of reducing costs for employers who employ migrants granted asylum in Sweden. The Entry Recruitment Incentive is another kind of subsidised job in Sweden, where the employer can receive 80 per cent of the wage as a subsidy, up to a certain limit. The job must also be linked to Swedish language lessons.

#### **WORK FOR ASYLUM SEEKERS AND RELATIVES OF IMMIGRANTS (RI 10).**

*We have seen a pleasing development in that things have gone relatively well for foreign-born workers during the financial crisis. Compared with 2007, the proportion of foreign-born workers among the employed increased in both 2011 and 2014 in the majority of OECD countries.<sup>88</sup> For most countries in Europe, this will be a decisive and important issue. They need to increase their labour force if they are to meet future welfare challenges. How well different countries succeed in creating the conditions for those who come to Europe, for whatever reason, to enter the labour market will affect the development of all of society. Targeted measures as close as possible to the labour market improve employment opportunities and can provide work for asylum seekers and their families.*

**THE IMMIGRATION OF WORKERS (RI 9)** *is small in scope, but the need for labour is growing in many countries. Large-scale migration can help to increase potential growth, provided that the migrants obtain a foothold in the labour market. E.g. OECD states that there has been no need to revise the potential growth rate for Germany downwards in its latest forecast (as it has done for other OECD countries). One reason for this is the previously implemented reforms and*

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87 See, for example, OECD (2007) and OECD (2013).

88 See Figure A5 in Appendix 1.

*the increase in the labour force as a result of migration.<sup>89</sup>*

*The immigration of workers refers to a group of migrants who come to a new country in order to work and who already have a job offer. It sets an example for others and for society when people increasingly consider it natural for those who come from other countries to also quickly find work. Sweden is a clear example of how relaxing its rules on immigrant workers in 2008 enabled more people to find work.*

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89 See Box 1.5 in OECD (2015b), pages 38–39.

## 7. A FLEXIBLE WORKING LIFE OVER A LIFETIME

*This section covers RI 8 “Reskilling and adjusting”, RI 11 “Education and training” and RI 12 “A second chance”.*

In a globalised world, change is increasingly rapid. Developments in technology present new challenges and digitalization may cause the disappearance of up to half of today’s jobs in the not too distant future. At the same time, new skills will be developed to complement the various technical solutions. Although countries have demonstrated a good ability to adapt to previous structural changes, this cannot be taken for granted in the future. The changes bring demands for a flexible labour force and require regulations in a number of areas that enable adjustments to be made. This trend presents major challenges to the education system.<sup>90</sup>

The OECD regularly measures the ability of 15-year-olds in mathematics, science and literacy (PISA assessments). Of all the countries assessed, Sweden has experienced the sharpest fall and was below the OECD average in the most recent survey in 2012. The large proportion of young people from other countries in Swedish schools has only had a slight effect on these results even though more than half of foreign-born schoolchildren do not have any basic

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90 See, for example, Blix, M. The economy and digitalization – opportunities and challenges, 2015, [www.martenblix.com](http://www.martenblix.com)



skills in mathematics (59 per cent). The equivalent for native-born schoolchildren is one in five (22 per cent) according to the 2012 survey.<sup>91</sup> The Swedish school system faces a challenge to increase the skills level of both foreign-born and native-born young people.

Sweden does better in the OECD's PIAAC survey of adult skills. The majority (58 per cent) of adults (aged 16–65) have a good level of literacy. Norway is at roughly the same level, while Denmark is slightly lower. Finland has the best results of the Nordic countries.<sup>92</sup> In terms of problem-solving using computers and other technology, Sweden scores highest out of the 23 countries surveyed.<sup>93</sup> Around 44 per cent of the adult population is at skills level 2 or 3, which corresponds to a good level in problem-solving. The average for the participating countries is 34 per cent.<sup>94</sup> The other Nordic countries and the Netherlands are also at a high level. Germany, however, comes in no higher than eighth in relation to problem-solving at skills levels 2 and 3.

A good education and repeated opportunities for further education and retraining are key elements of a flexible working life. Companies need to make redundancies when changes take place as a result of developments in technology and on different markets. They also need to make redundancies as a result of cut-backs to production. Sometimes companies need to be closed down and new companies established. The risk of redundancy is greater for older workers and those with a lower level of education and it also takes longer for them to return to work according to a new OECD study covering 14 countries.<sup>95</sup> The proportion of workers made redundant in the countries examined is not very high; displacement

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91 Skolverket (2013), "PISA 2012, 15-åringars kunskaper i matematik, läsförståelse och naturvetenskap, Resultat i koncentration" (PISA 2012, skills of 15-year-olds in mathematics, literacy and science, Summarised results), Summary of Report 398, 2013. <http://www.skolverket.se/om-skolverket/publikationer>

92 Statistics Sweden (2013), "PIAAC – den internationella undersökningen av vuxnas färdigheter: Vuxnas färdigheter står sig väl internationellt" (PIAAC – the international survey of adult skills: Adult skills look good in international comparison), Statistiknyheter från SCB (Statistics news from Statistics Sweden), No. 2013:263, 2013-10-08. [www.scb.se](http://www.scb.se)

93 See Figure 2.10a in OECD (2013b), page 87.

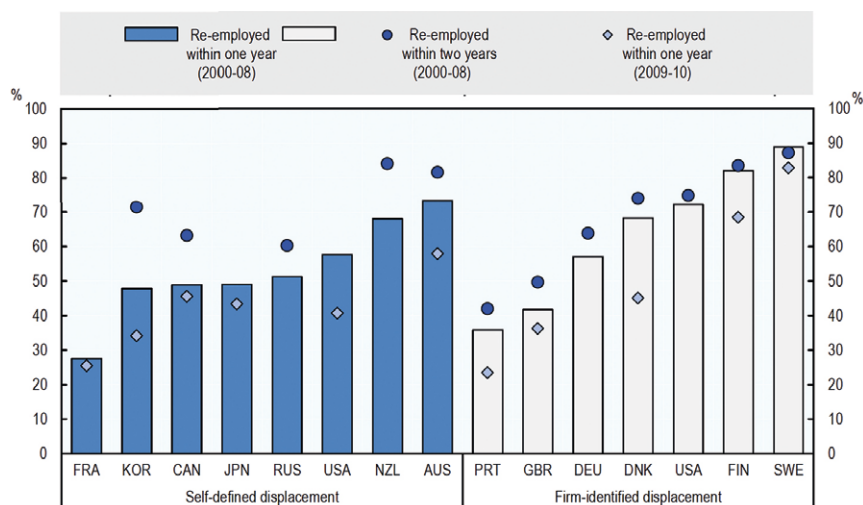
94 OECD (2013b), page 87.

95 See Quintini, G. and D. Venn, "Back to Work: Re-employment, Earnings and Skill Use after Job Displacement", Final report, Directorate for Employment, Labour and Social Affairs, October 2013, OECD.

rates were between 1.5 and 7 per cent during the first decade of the century. Of the countries examined, Germany and Sweden had the lowest displacement rates, while the USA and the United Kingdom, along with Finland, had the highest.

Following the financial crisis, it has been difficult to return to work within a reasonable period following redundancy. However, in both Finland and Sweden around 80 per cent were back in work within one year during the period 2009–2010. In the United Kingdom, just under half had found a new job (see Figure 17).<sup>96</sup>

**FIGURE 17: PROPORTION OF WORKERS RE-EMPLOYED WITHIN ONE AND TWO YEARS FOLLOWING DISPLACEMENT**



**Source:** Figure from Quintini, G. and D. Venn, “Back to Work: Re-employment, Earnings and Skill Use after Job Displacement”, Final report, Directorate for Employment, Labour and Social Affairs, October 2013, OECD, page 21.

96 The right-hand side of Figure 17 shows figures for firm-identified displacement – lay-offs – where more than 30% or more than 5 people have been made redundant or where the company has been closed down. The left-hand side of the diagram shows individual displacement resulting from production cutbacks or displacement for other reasons.

Young people often find a new job relatively soon after redundancy, often with a higher skills level and a higher wage than their previous job. Women are not made redundant to as great an extent as men, but it is more difficult for women to find a new job.<sup>97</sup> Even if a new job is found after redundancy, in many cases this may be a part-time job, a job with a lower skills level and lower wage, or self-employed work (“involuntary self-employment”). A study of Swedish data shows that it is those being redundant with the worst conditions on the labour market who start their own companies. Those who instead leave their job in order to start up on their own are either people with a high skills level or those with financial resources.<sup>98</sup>

In the event of redundancies, it is important that there are opportunities for people to supplement their skills or retrain so they can look for jobs in areas other than those in which they have worked previously. In Sweden, the labour market parties have a great responsibility for retraining through their “Job Security Councils”.<sup>99</sup> Over three million employees are covered by these councils’ agreements and over 40,000 people receive support from them annually. Around 75–80 per cent go on to a “new solution” after receiving support for reskilling and adjustment.<sup>100</sup> The support work of the Job Security Councils is designed for those who will be made redundant at a company in the near future if cuts are being made to the labour force or the company is closing down.

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97 In Denmark, Finland and the USA, the risk of redundancy is greater for women, but if we take into account the fact that the employment contracts of women are temporary, there is no difference between men and women. See Quintini et al (2013), page 16.

98 Von Greiff, J. (2009), “Displacement and Self-Employment Entry”, *Labour Economics*, Vol. 16, pages 556–565.

99 Examples of these include: Trygghetsrådet TRS, Trygghetsrådet TRR, Trygghetsstiftelsen, Trygghetsfonden TSL and Omställningsfonden.

100 See Walter, L. Red. “Mellan jobb. Omställningsavtal och stöd till uppsagda i Sverige” (Between jobs. Re-employment agreements and redundancy support in Sweden), October 2015, Bokus or Adlibris.

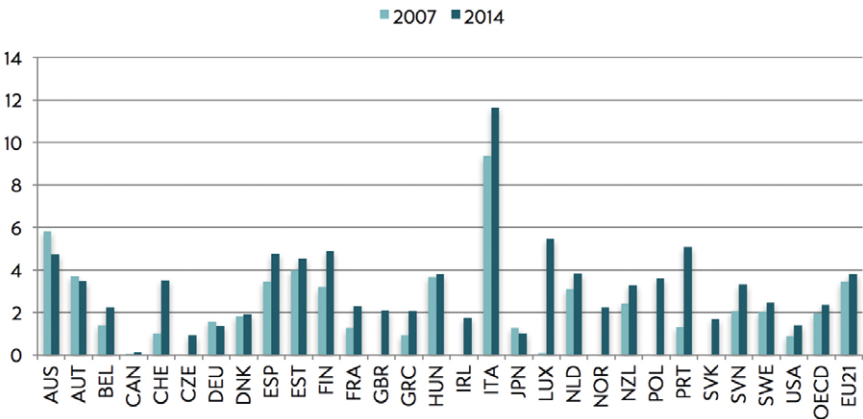
**IT IS IMPORTANT THAT THERE ARE OPPORTUNITIES FOR RESKILLING AND ADJUSTING (RI 8) AND GOOD EDUCATION AND TRAINING FOR WORK (RI 11). PEOPLE SHOULD ALSO BE GIVEN A SECOND CHANCE (RI 12).** *Global development and digitalization mean that people have to be flexible and retrain for new tasks, perhaps even once or twice in their lifetimes. Average life expectancy is also increasing and with it the need for good health and medical care. This means that people will have to work to a later age. We believe that there should be opportunities for those who, for whatever reason, want to advance themselves and retrain, even if they already have a job. The work of the Swedish Job Security Councils should be able to act as an example and be developed so that it also covers those who have a job but are not at risk of redundancy. The challenge for the education system is to design shorter training options that focus on the skills required by a changing labour market, both for those who already have a job and those who are out of work.*

*We are facing brand new challenges. Those who draw up and implement a framework to continuously develop opportunities for everyone to be able to work throughout their lifetime will be the most successful in meeting these new challenges. When more people are working and doing themselves justice, the whole of society is strengthened. Fewer are left outside and our society becomes more inclusive. It is for this reason that we have drawn up the Reinfeldt Initiative.*



# APPENDIX 1: SUPPLEMENTARY FIGURES

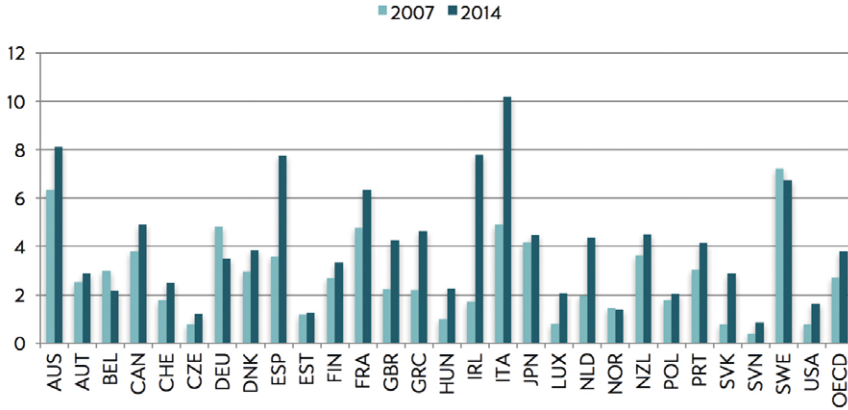
**FIGURE A1A: MARGINALLY ATTACHED PEOPLE AS A PROPORTION OF THE EXTENDED LABOUR FORCE, TOTAL**



**NB:** The extended labour force is calculated by the OECD as the labour force including “discouraged workers”. “Discouraged workers” are those who would like to work and are available but have not looked for a job because they do not think there are any to find. “Marginally attached people” includes all those who want to work and are available but have not looked for a job, for whatever reason.

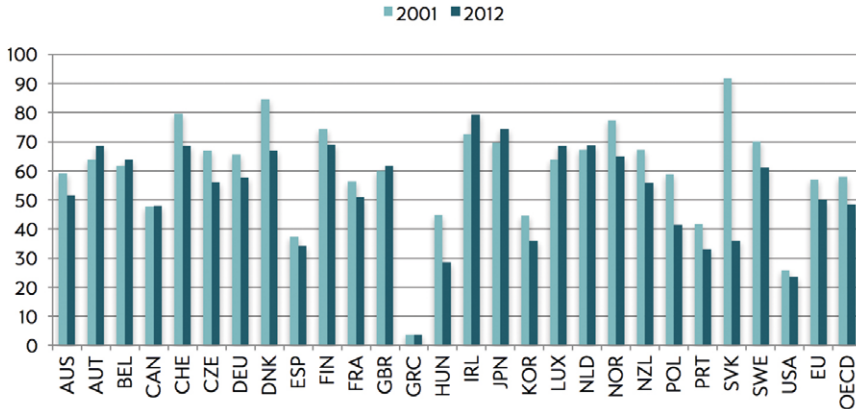
**Source:** OECD Employment and Labour Statistics, [www.oecd.org](http://www.oecd.org).

**FIGURE A1B: INVOLUNTARY PART-TIME WORKING AS A PROPORTION OF THE LABOUR FORCE, TOTAL**



**Source:** OECD Employment and Labour Statistics, [www.oecd.org](http://www.oecd.org).

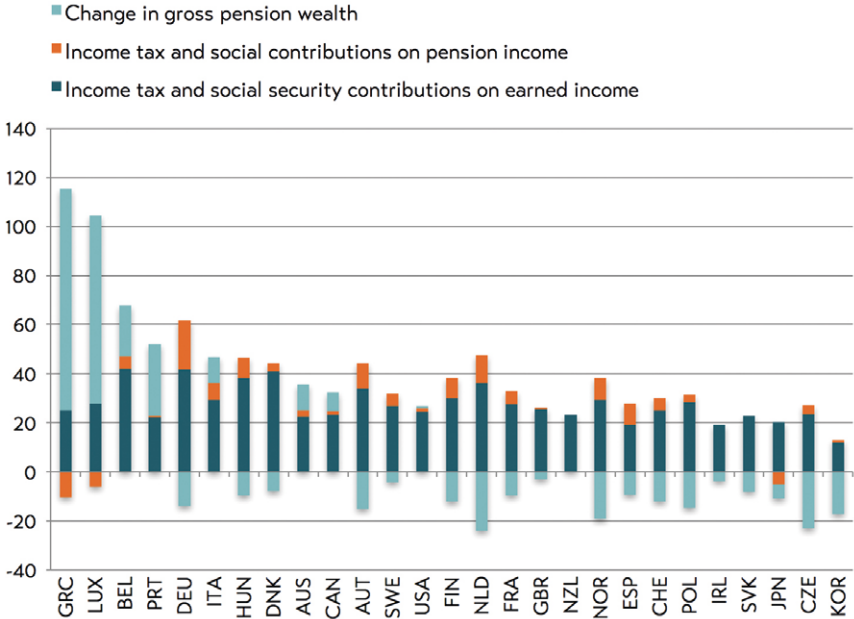
**FIGURE A2: COMPENSATION RATE (NET) IN THE EVENT OF LONG-TERM UNEMPLOYMENT, 2001 AND 2012**



**NB:** Long-term unemployment is defined as unemployment of 60 months.

**Source:** OECD (2015a), page 129.

**FIGURE A3: INDICATOR OF FINANCIAL INCENTIVES TO RETIRE INSTEAD OF CONTINUING TO WORK BETWEEN THE AGES OF 60 AND 64 FOR A MAN WITH AVERAGE INCOME**

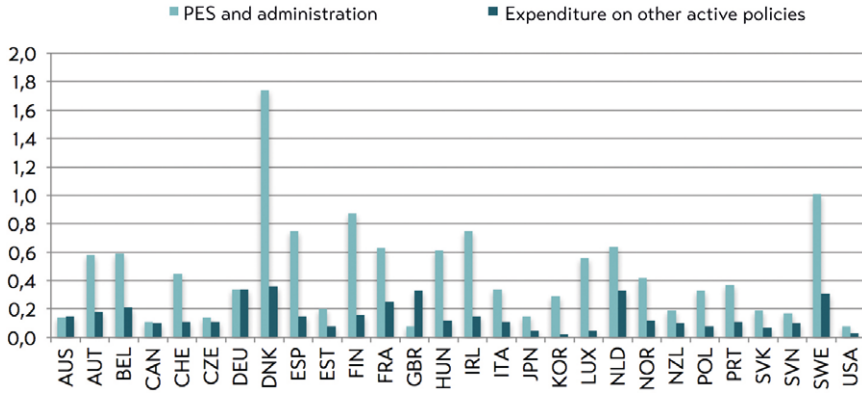


**NB:** The values show the effect of the FIR financial indicator. A reduction/increase in pension wealth with continued working has a positive/negative effect on FIR.

**Source:** OECD (2011).

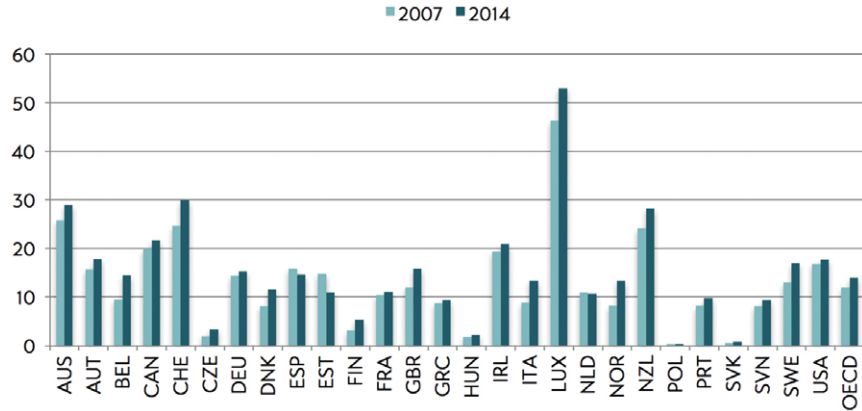


**FIGURE A4: EXPENDITURE ON LABOUR MARKET POLICY IN 2012 AS A PROPORTION OF GDP**



Source: OECD (2015c) page 118.

**FIGURE A5: SHARE OF FOREIGN-BORN IN TOTAL EMPLOYMENT, 2007 AND 2014**



Source: OECD (2015e) page 101.

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