

# A LARGER LABOUR FORCE IN THE NORDIC COUNTRIES



Confederation of Finnish Industries



Confederation of Danish Industry



# Table of Contents

<b>1. INTRODUCTION</b> .....	<b>3</b>
<b>2. WHY THE NEED FOR A LARGER LABOUR FORCE?</b> .....	<b>7</b>
<b>3. MACROECONOMIC INDICATORS</b> .....	<b>10</b>
<b>4. RATE OF EMPLOYMENT IN THE NORDIC COUNTRIES</b> .....	<b>13</b>
<b>5. INCREASING THE LABOUR FORCE</b> .....	<b>23</b>
5.1 YOUTH IN EDUCATION AND ON THE LABOUR MARKET.....	23
5.2 UNEMPLOYMENT INSURANCE .....	35
5.3 IMMIGRATION AND EMIGRATION OF LABOUR.....	42
5.4 INTEGRATION OF REFUGEES AND REUNIFIED FAMILY MEMBERS .....	52
5.5 SICKNESS ABSENTEEISM AND DISABILITY PENSIONS .....	58
5.6 PENSION AND RETIREMENT.....	67
5.7 TAXES.....	74
REFERENCES.....	79

# 1. Introduction

In the autumn of 2007, the Nordic employers' and business organisations agreed to establish a working group to analyze the potentials for a larger labour force in the Nordic countries. This report is based on this work.

The following persons have participated in writing this report:

Torill Lødemel, NHO, Norway

Riitta Wärn, EK, Finland

Gudrún S. Eyjólfsdóttir, SA, Iceland

Karin Ekenger, Svenskt Näringsliv, Sweden

Erik Simonsen, DA, Denmark

The report is divided into two main parts. Chapters 2-4 is the descriptive part, while the policies and findings are compared in Chapter 5. The intention has been to contrast the different policies and different results, so that it is possible to learn from this comparison and gain inspiration for the follow-up of 'Best Nordic Practice'.

## **Why the need for a larger labour force?**

The Nordic countries have a shortage of labour, and this shortage will continue as the populations in the Nordic countries age. There is considerable room for initiatives to increase the rate of employment, especially among young people, those nearing retirement age and those receiving public benefits due to health problems.

## **Macroeconomic indicators**

The Nordic countries are doing better economically than the OECD countries as a whole, and should therefore be attractive to people desiring to work outside their countries of origin.

## **Nordic rates of workforce participation**

The Nordic countries vary considerably in their rates of employment, unemployment situations, actual work time and average working hours. This variation appears when one looks at a 'snapshot' and when one attempts to predict future developments. The same variations apply to the flexibility of the labour market. Useful lessons on the need for flexibility can be drawn from the Nordic experience.

## **Youth in the education system and the labour market**

The combination of good qualifications and an open and flexible labour market provides the best conditions for young people to rapidly obtain employment.

As on many other points, the Nordic countries can learn from each other in improving young people's education and their access to the labour market.

The basis for further education and subsequent employment is a well-functioning primary school system. Finland is the Nordic country where the pupils in primary school clearly have the best academic skills and where the greatest proportion subsequently go on to secondary educa-

tion.

Iceland and Denmark are best at getting youth into employment. Iceland and Denmark are also those countries with the highest degree of flexibility on the labour market. A flexible labour market, where the risk of hiring workers is small because it is possible to discharge workers without very great costs, creates a labour market with many job openings, which is especially beneficial to the youth.

**Unemployment insurance**

The purpose of unemployment insurance should be to ensure a share of one's current income level for a limited period, support an acceptable standard of living, and at the same time ensure that it can always pay for the individual to leave the unemployment insurance system and take a job.

In this light, the unemployment insurance system functions best in Sweden and Norway, while the Danish unemployment insurance is inflexible because of the high compensation level compared to prior income and the long period for which the individual may receive unemployment benefits.

**Immigration and emigration of labour**

In all the Nordic countries, there has been a recognition that continued economic development depends on immigration of labour. Immigration of labour has increased markedly, and in all the Nordic countries, new and different initiatives are under way. The many different initiatives create fruitful opportunities to transfer positive experiences between the countries.

New laws on residence and work permits adopted this spring in Iceland are meant to reduce the time needed to obtain permits to a few days or weeks. Rules on granting work permits were made more flexible and priority will be given to granting residence permits for people coming to work or study.

Denmark has eliminated limitations on foreign labour coming from the new Eastern European EU countries. For citizens from third countries, the Danish fast track 'job card' has been extended and firms have obtained better opportunities to recruit workers into Denmark. Denmark will also make an effort to brand itself as a good country in which to work. For example, Denmark has set up a 'Work in Denmark' office in Delhi, with the goal of attracting highly qualified Indian workers.

In Norway, all administrative authorities in eastern Norway dealing with foreign workers have been collected into a single unit. The initial experiences are very positive.

In Sweden, the government has proposed that firms from December 15 2008 must have the right to decide themselves if they need to recruit workers outside the EU as long as the positions have previously been advertised on the common European labour exchange, EURES.

In Finland there are several propositions in preparation to make it easier for firms to recruit workers from outside the EU. The government has not yet given proposals to the parliament. The major changes can be expected in the year 2009.

Firms in the Nordic countries seeking to recruit workers from abroad continue to experience delays, bureaucratic administration and compli-

cated rules.

**Integration of refugees and those entering under reunification of families**

In several countries, refugees and those entering under reunification of families' provisions are a significant source of additional labour. These immigrants are less active on the Nordic countries' labour markets than natives from these countries.

In both Denmark and Norway, introductory programs have been established with the goal of integrating refugees and immigrants entering under family reunification programs, including also integration into the labour market.

Denmark has combined the rights and obligations to participate in the introductory program with clearer economic incentives to work.

**Sickness absenteeism disability pension**

The Nordic countries all have a massive exit from the labour market as a result of health-related payments. 10 to 15 % of the population of working age is outside the labour market temporarily or permanently because of health problems.

Norway and Sweden have especially high rates of sickness-related absenteeism, and many people receive disability pensions.

All the countries are working to reduce the health-related exit from the labour market. In Norway, it has been decided to establish 'one door' to the labour and welfare systems. This has also been done in Denmark, though without having created any visible results.

The dialogue between employee and firm has otherwise played a great role in Norway. From absenteeism having been seen as a private matter for the individual, it has become a path towards dialogue and cooperation between management and employee. Similar considerations play a major role in current political thinking in Denmark.

Iceland has established a sickness and disability pension fund in which focus is on creating opportunities for continued work.

In Sweden, new health insurance regulations have been introduced which set time limits of 3, 6 and 12 months on the continued right to sick leave payments. These conditions require that the individual is not only sick in relation to their existing job, but also for other jobs in the firm, or, respectively, other jobs on the labour market. After 12 months' sick leave, the amount of compensation is reduced from 80% to 75% of the previous salary.

**Pension and retirement**

The employment rate for people older than 50, while varying amongst the Nordic countries, is in most instances higher than the average of the OECD countries. Denmark, which has a low rate of employment for those over 60, has a system of early retirement pensions that encourages people to leave the labour market early. Employees in Finland also leave the labour market very early.

All the Nordic countries have structured their pension systems with some kind of economic incentives for employees to work longer.

Denmark and Norway have increased the age of retirement as the age of life expectancy has increased. These changes can have major signifi-

cance over the long term.

## **Taxes**

Taxes that have an important influence on employment and vary widely in the Nordic countries. Average taxes on income and the marginal tax rates are higher in Denmark than in the other Nordic countries. Looking at all taxes on employment, including employer's contribution fees, Sweden has the highest taxes.

## 2. Why the need for a larger labour force?

### The present labour shortage

Several of the Nordic countries are already experiencing a widespread shortage of labour, see Figure 1.

Figure 1



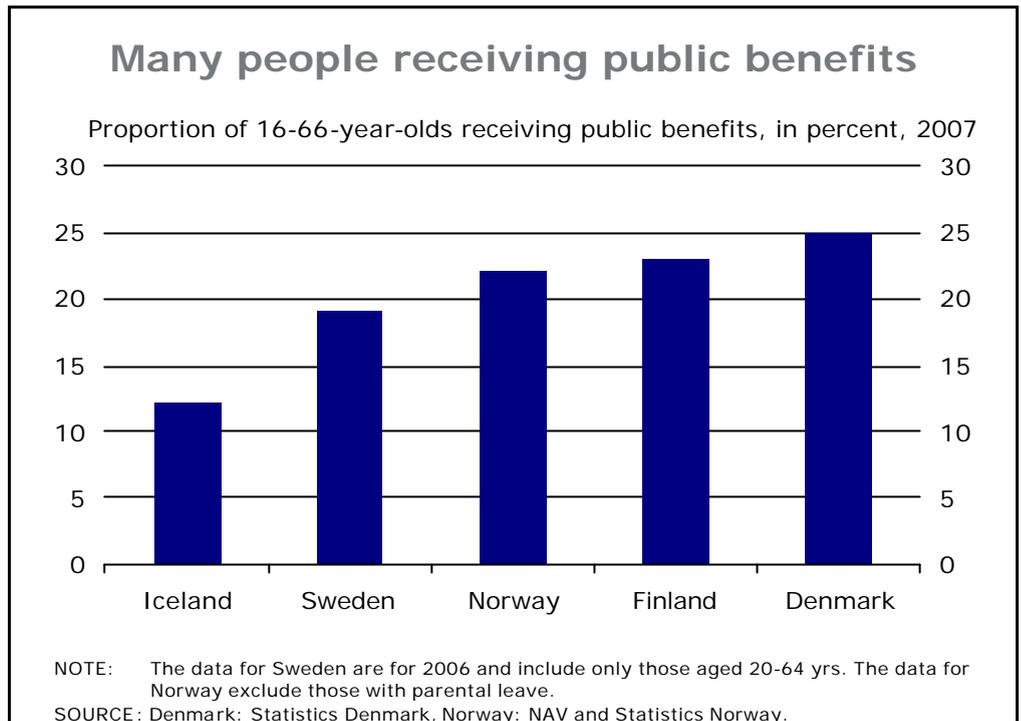
The data in Figure 1 are not directly comparable, as the calculations use different base sources. However, they show that shortage of labour is a problem in all the Nordic countries.

The shortage of labour is due to both upward economic conjunctures and a long-term structural change in the population. Demographic developments in the Nordic countries mean that the labour force is no longer growing but will decline. At the same time, growth in public sector employment leads to the risk of a reduction in the supply of labour for the private sector.

### Still many people receiving public benefits

Even though there has been a healthy economic development in the Nordic countries over several years, there are still many who receive a daily allowance from the state or municipality because they are wholly or partly outside the labour market; see Figure 2.

Figure 2



It is a paradox that Denmark has the lowest rate of unemployment in the Nordic countries, but it is also that country with the highest proportion of working-age people receiving public benefits.

In several of the countries, a significant portion of those receiving public benefits are able to work; i.e., they are persons who are not outside the labour market because of illness or major social problems. For example, half of those receiving public benefits in Denmark are able to work. There are thus good possibilities to expand the labour force by reducing the number of those receiving benefits.

In addition, the immigration of labour is an important source for expanding the work force.

### **There is a risk that the labour force will decline in the coming years**

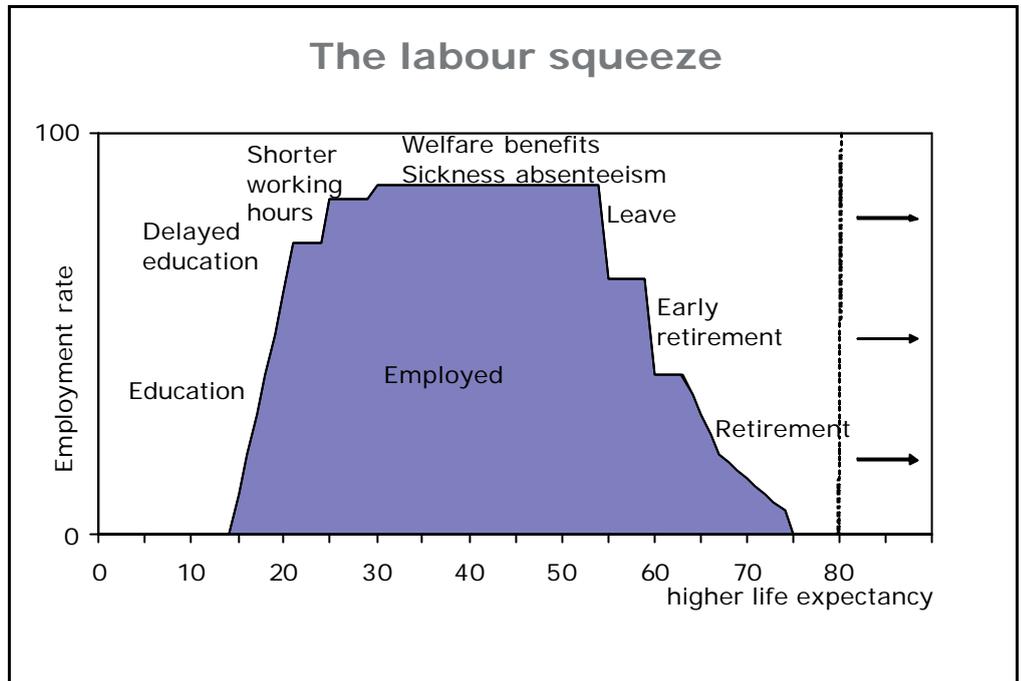
As in many other European countries, the labour force in the Nordic countries will diminish in the decades to come if political initiatives are not taken to counter this trend. Up through the 20th century, birth rates of over two children per woman ensured that the entry of youth onto the labour market was greater than the exit of elder workers.

This trend has now been reversed. A lower birth rate over the past 30 years combined with a large cohort of people now reaching the age of retirement means that the Nordic labour markets are losing workers year by year. The firms find it more difficult to recruit the necessary number of workers, and the price of labour will increase because of the lower supply. High labour costs will weaken the Nordic firms' competitive edge.

Along with the demographic dilemma, the firms' recruiting base is being threatened by the fact that youth enter the labour market at a later

age; that employment in the work-active age is declining, and by the earlier withdrawal from the labour market due to attractive early retirement programs; see Figure 3.

Figure 3



In addition, a growing public sector puts additional pressure on the private firms, and increasing life expectancy increases the challenge of financing the public sector.

A larger and better qualified work force is an essential key to meeting these challenges.

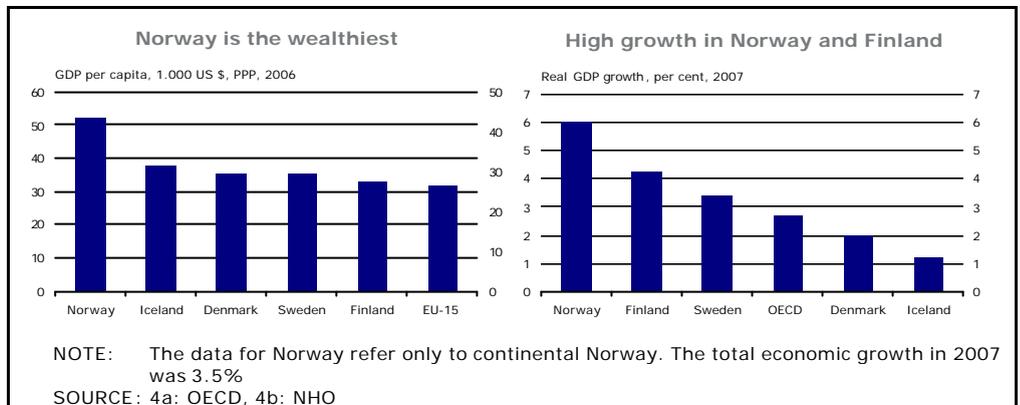
### 3. Macroeconomic indicators

#### Assessment

The Nordic countries are doing better economically than the OECD as a whole, and should be attractive to people who want to work outside their own country.

GDP per capita is significantly higher in Norway than in the other Nordic countries, see Figure 4a.

Figures 4a og 4b

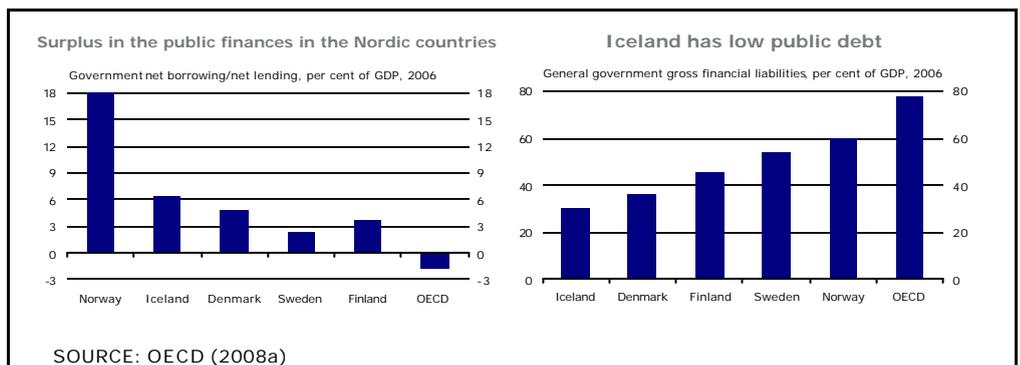


All the Nordic countries have higher GDPs per capita than the average for the EU-15.

Growth in GDP in 2007 was highest in Norway and lowest in Iceland. Denmark and Iceland were the only Nordic countries that had growth rates lower than the OECD as a whole in 2007; see Figure 4b.

All the Nordic countries have a surplus in their public finances, and the countries thereby distinguish themselves from the OECD as a whole, which in 2005 had a median deficit in their public finances of nearly 3 % of GDP, see Figure 5a.

Figures 5a og 5b



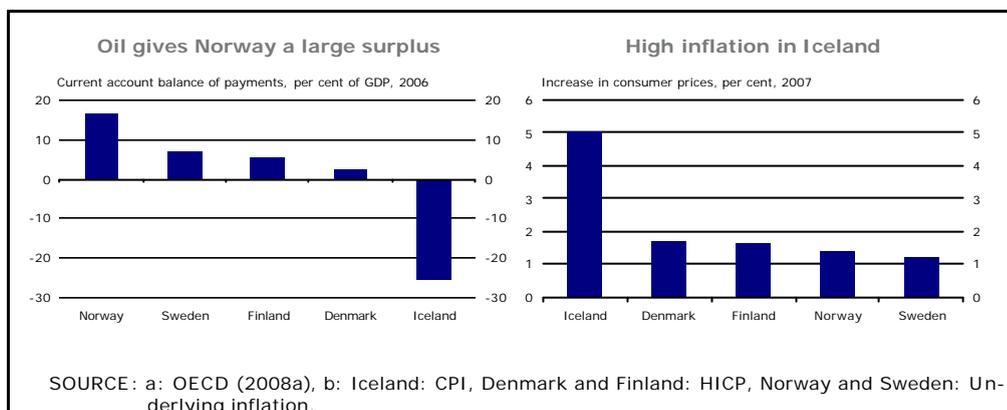
Norway, because of its oil income, has a significantly higher financial surplus than the other Nordic countries

One of the EMU criteria is that the annual deficit in the public finances must not exceed 3 % of GNP. This requirement is fulfilled by all the Nordic countries without difficulty. A second criterion is that the public debt must not exceed 60% of GNP. This criterion is also fulfilled by the Nordic countries, although Sweden fulfils it just barely; see Figure 5b.

All the Nordic countries perform better than the OECD average. The figure shows the gross debt and therefore does not include the countries' assets. For Norway, its oil income fund means that the state's financial balance is positive, as the assets exceed the amount of Norway's debt.

Iceland is the only Nordic country which in 2005 had a deficit on its balance of payments abroad; see Figure 6a.

Figures 6a og 6b



Iceland's deficit in 2005 was more than 15% of its GDP. Norway had a surplus of more than 15% of GDP. Here, too, oil income plays a major role.

**Highest inflation in Iceland**

Inflation is higher in Iceland than in the other Nordic countries. In 2007, Iceland's rate of inflation was 5%, whereas inflation was only 1-2% in the other Nordic countries; see Figure 6b.

**The Nordic countries are doing well economically**

The Nordic countries are doing better economically than the OECD as a whole. Only in individual cases are there significant imbalances in the Nordic economies. In 2008 however the inflation has tended to increase.

**Wage costs**

From 1999 to 2006, wage costs in Sweden, Finland and Denmark evolved largely identically from year to year, whereas wage costs in Norway have risen more than in the other countries. At the same time, the annual variations are greater in Norway; see Figure 7.

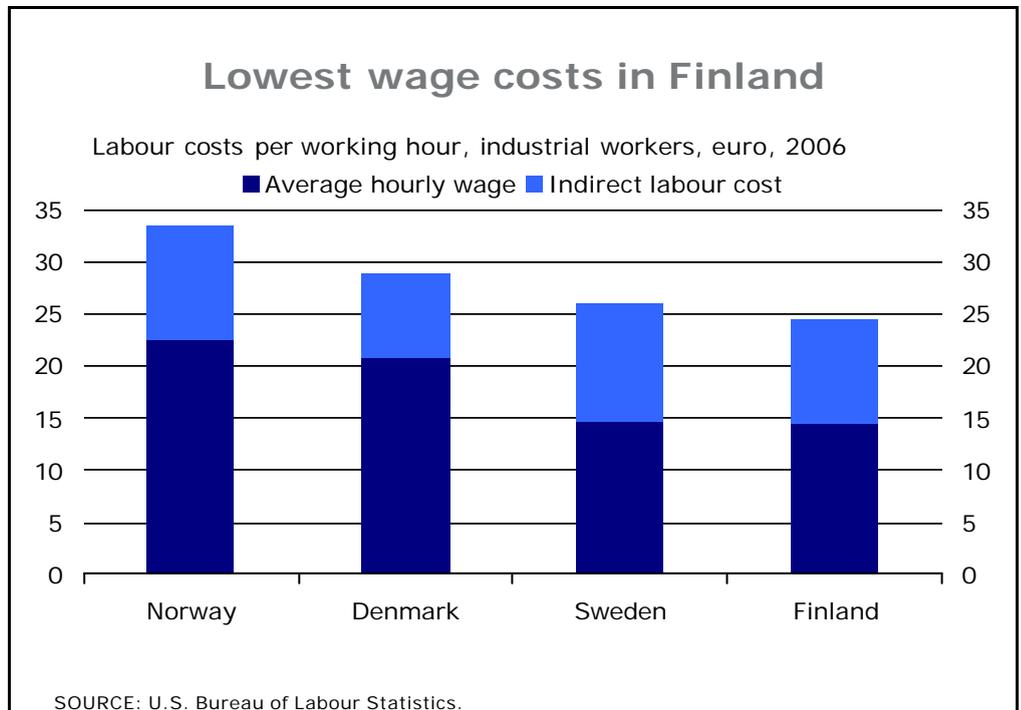
Figure 7



**Wage costs**

The relative great increases in wage costs in Norway have contributed to higher wage costs among firms operating in Norway than in the other Nordic countries; see Figure 8.

Figur 8



The direct wage costs are highest in Denmark and Norway, while indirect wage costs are lower in Denmark than in Norway. The direct costs are significantly lower in Sweden and Finland than in Denmark and Norway, while the indirect wage costs are high, especially in Sweden.

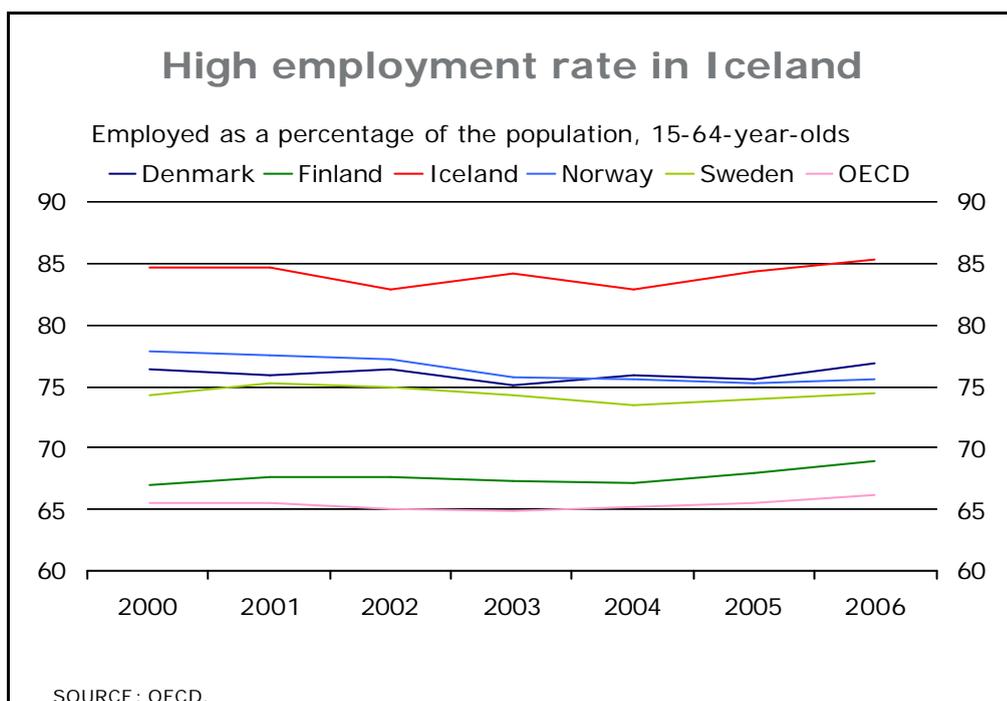
## 4. Rate of employment in the Nordic countries

### Assessment

The employment rate, the unemployment rate, actual work time and average working hours differ considerably among the Nordic countries. This is true regardless of whether one examines the situation as a snapshot or whether one tries to predict future trends. The same applies to the flexibility of the labour market. Useful lessons on the need for flexibility can be drawn from the Nordic experience.

The proportion of 15-64-year-olds in the population who are employed is significantly higher in Iceland than in the other Nordic countries. About 85% of Icelanders are employed, a proportion 8% higher than Denmark, which has the next highest employment rate; see Figure 9.

Figure 9

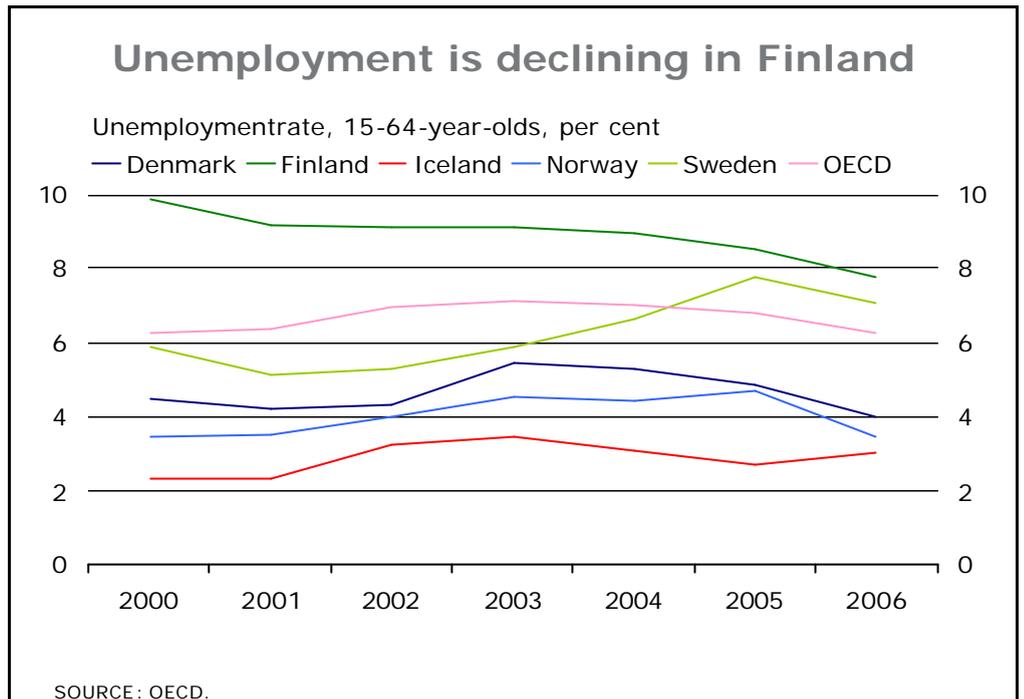


Denmark, Norway and Sweden have about the same proportion of their populations in employment, while the rate in Finland is lower.

From 2000 to 2006, the employment rate rose in Finland, while declining in Norway. The other countries have remained at the same level during this period.

The unemployment rate in Denmark, Norway and Iceland is at 4% or below, while unemployment Sweden and Finland is nearly twice as high; see Figure 10.

Figure 10

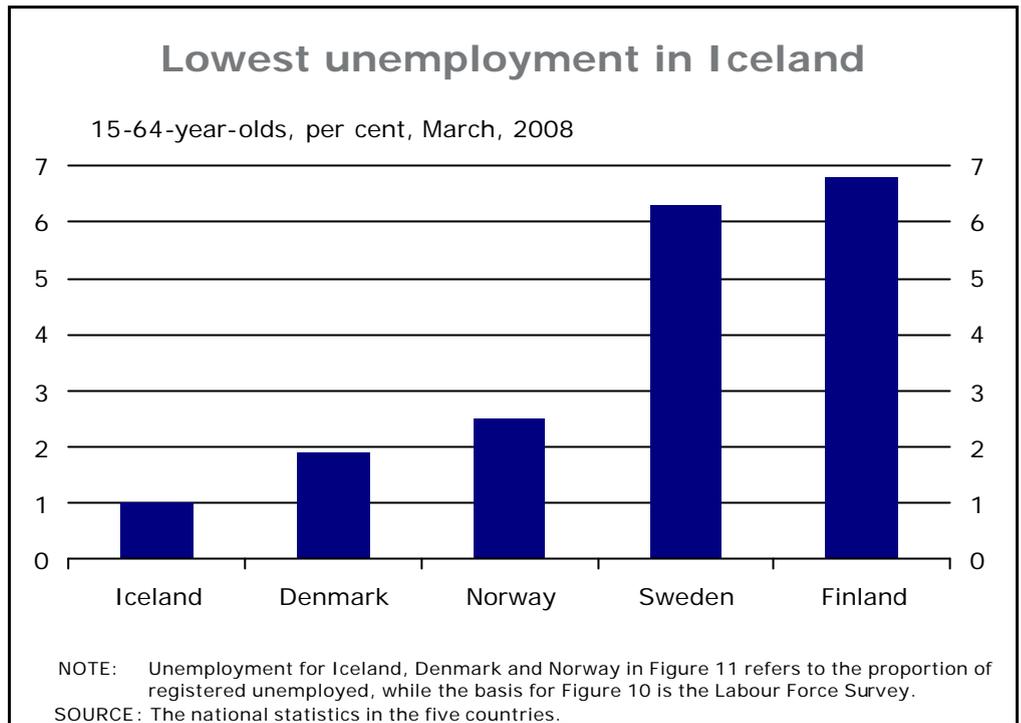


Only in Finland has unemployment declined significantly from 2000 to 2006.

In Finland, the unemployment rate has decreased rapidly from the beginning of the 21<sup>st</sup> century. This is due partly to the fact that the unemployment rate in Finland was especially high following the recession, in the 1990s. On the other hand, economic growth has been more rapid in Finland than the average for the other EU countries during the same period. The demand on the domestic market as well as on the foreign market has been strong. Finland has profited from strong growth in the Russian and East European markets. The demand on the domestic market has been supported by income tax relief. The Finnish construction sector has also been strong.

The proportion of registered unemployed in the Nordic countries is lowest in Iceland, where it now 1% of the labour force. In Denmark and Norway, unemployment is also very low; see Figure 11.

Figure 11

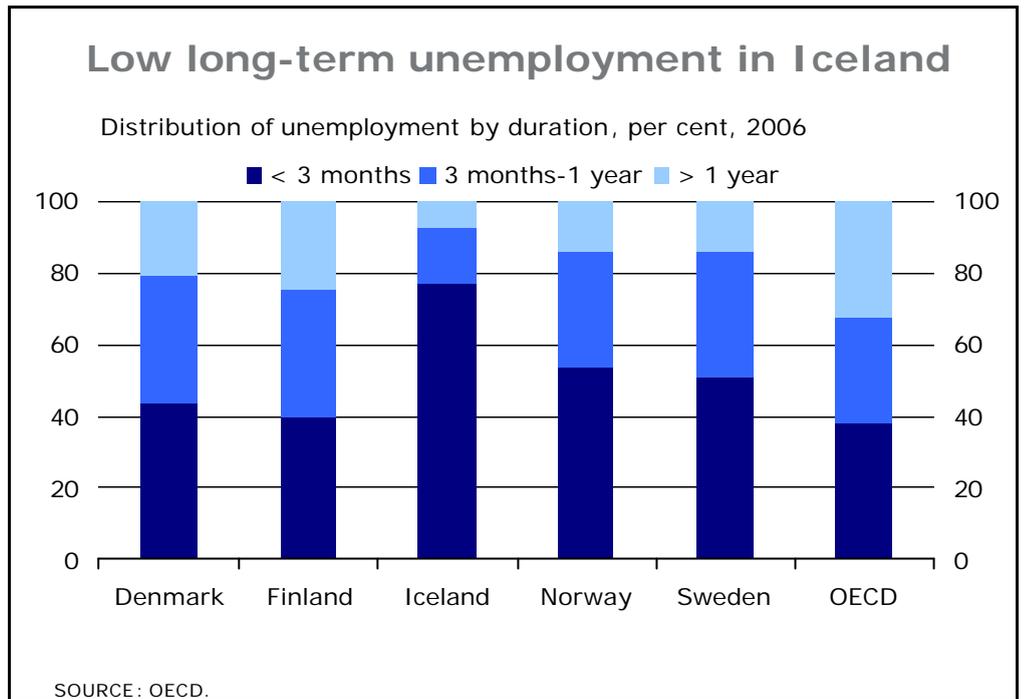


In Finland and Sweden, unemployment is three times greater than in Norway, Iceland and Denmark. The immediate pressure on the labour market is thus significantly greater in Denmark, Norway and Iceland than in Sweden and Finland.

Long-term unemployment makes it more difficult to return to work. In order to ensure that firms gain access to qualified workers, it is of great significance that as few workers as possible are unemployed for a long period.

In Iceland there is practically no long-term unemployment. About 7% of the unemployed in Iceland have been unemployed for more than 12 months; see Figure 12.

Figur 12



Finland and Denmark have the greatest proportion of unemployed who have been receiving benefits for more than 12 months. The higher share of long-term unemployed in Finland can be due to the relatively high level of unemployment. The explanation does not apply to Denmark.

Participation in job activation programs breaks up the individual's period of unemployment. This means that in countries with intensive use of activation measures, as was the case in Sweden 2006, the real long-term unemployment may be under-reported.

### Working hours

Weekly working hours and vacation days have great significance for how much it is possible to extract from the country's labour resources. Even small changes, because they affect everyone, can lead to the loss of many productive hours; see Table 1.

Table 1

Formal working hours highest in Finland				
2004	Weekly working hours	Holidays	Moveable feasts (holidays on different days each year)	Total annual working hours
Finland	40,0	37,5	8	1.732
Norway	37,5	25,0	7	1.725
Sweden	37,5	25,0	9	1.710
Iceland	37,1	24,0	10	1.691
Denmark	37,0	30,0	7	1.665

NOTE: In Iceland, data for weekly working hours is based on that of unskilled workers. The number of working hours is somewhat lower for retail clerks and somewhat higher for office workers. In addition, an extra holiday is given after five years' seniority in the same firm and an additional three days after 10 years' seniority. In Sweden and Norway, the formal working hours are 40 hours per week, but the social partners have agreed upon fewer weekly working hours.

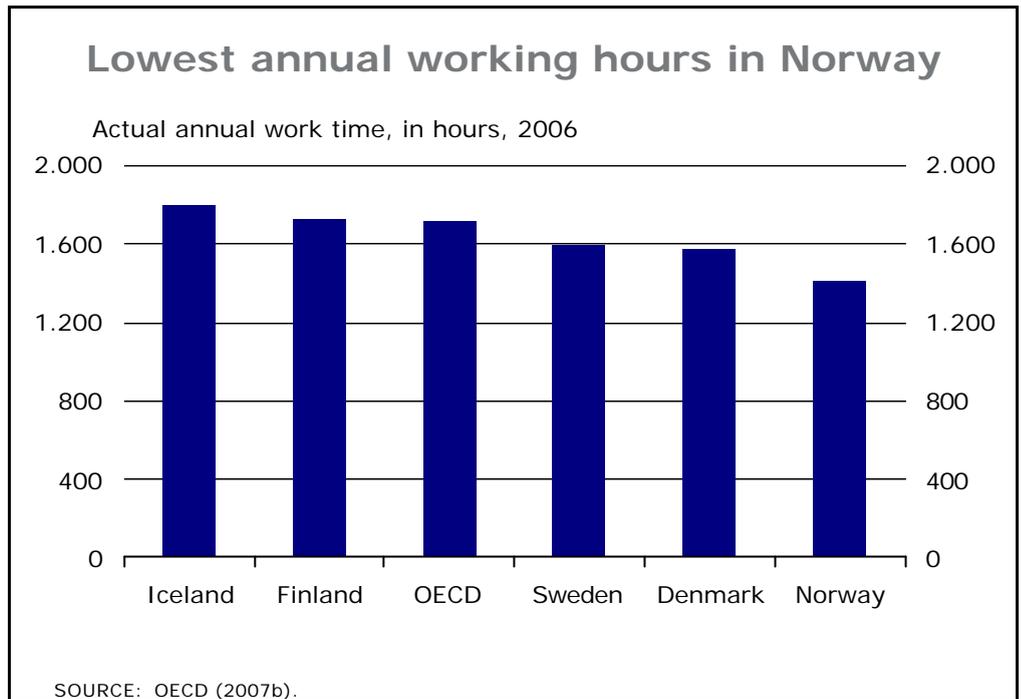
SOURCE: BDA, Samtök atvinnulífsins.

As a point of departure, there are considerable similarities when it comes to the formal working hours in the Nordic countries. Finland has the highest agreed upon working hours, with 40 hours per week, but the Finns also have the most vacation days. In 2004, one full-time worker in Finland worked seven hours more than in Norway, 22 hours more than in Sweden and 41 hours more than a worker in Iceland. The formal working hours in Denmark are lowest both in terms of weekly working hours and number of hours worked for a full-time worker. Workers in Denmark work 67 fewer hours per year than in Finland.

This picture changes significantly when the actual working time is considered.

Icelanders are not only that Nordic population where the greatest proportion of the population is employed. Icelandic employees also work more than employees in the other Nordic countries; see Figure 13.

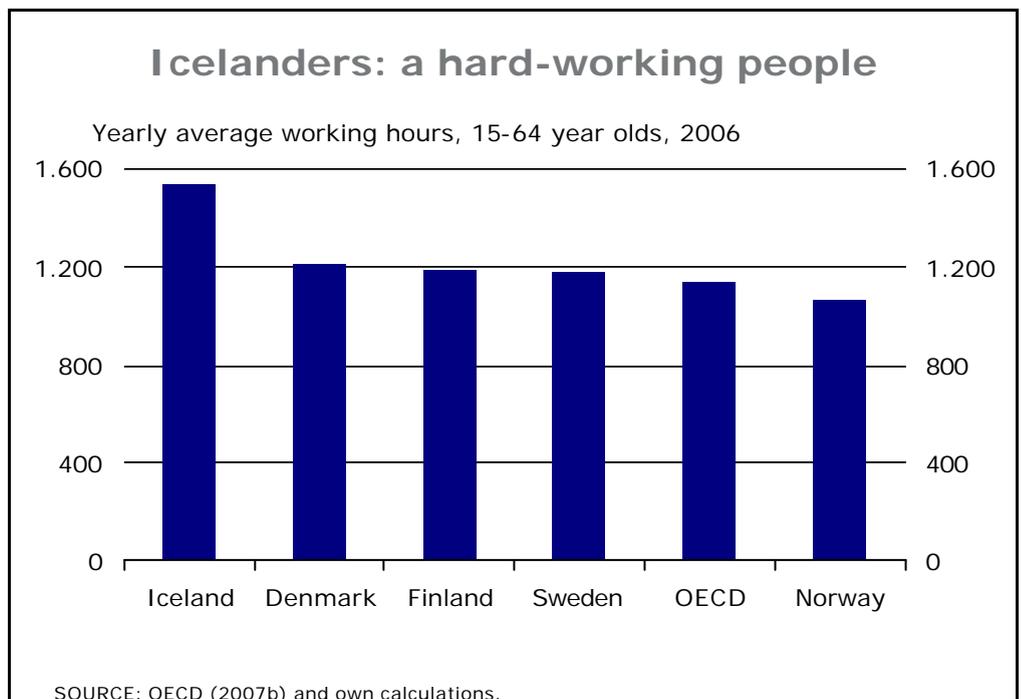
Figure 13



Average annual working hours are almost equal in Finland and Iceland. Total working time in Sweden, Denmark and especially in Norway is lower than Finland and Iceland, but on this point the Nordic countries also perform worse – compared to largely all other indices – than the OECD average.

In Iceland, the average working time for 15-64-year-olds is significantly higher than for the other Nordic countries; see Figure 14.

Figure 14



Icelanders 15-64 years old work an average of 300 hours more per year than 15-64-year-old Danes, who work next hardest among the Nordic countries. Norwegians are the only Nordic group who work fewer hours than the OECD average.

Despite the high employment rates in the Nordic countries, their low average number of hours worked means that the citizens of Denmark, Finland and Sweden work only slightly more than the OECD average, and that those in Norway work 70 hours less than the OECD average.

### Flexibility

Flexibility on the labour market is significantly different for the Nordic countries if one measures lay-offs, work time, working conditions and indirect wage costs. Flexibility on the Danish labour market is higher in these areas than in the other Nordic countries; see Table 2.

Table 2

<b>The Flexible Danish Labour Market</b>	
Denmark	High
Finland	Low
Iceland	Medium
Norway	Low
Sweden	Low

SOURCE: Nordic Council of Ministers (2008).

The combination of flexibility, active labour market policy and a high level for social security constitutes the 'flexicurity' model, which has been the object of much interest by other countries.

Low flexibility on the labour market will often entail that some groups, youth for example, would find it more difficult to enter the labour market, and that long-term unemployment, all things being equal, will be higher. With low flexibility, there will thus be greater risk that those who are unemployed find themselves marginalized on the labour market.

The high degree of flexibility in Denmark consists, for example, in:

- ? Companies can lay-off workers on relatively short notice;
- ? Labour agreements entail a more flexible organisation of work time;
- ? Labour rights are not linked to the individual workplace;
- ? Access to relatively attractive public benefits and good opportunities for retraining.

The medium degree of flexibility in Iceland consists, for example, in:

- ? Rules are determined partly by law, but mostly by collective a-

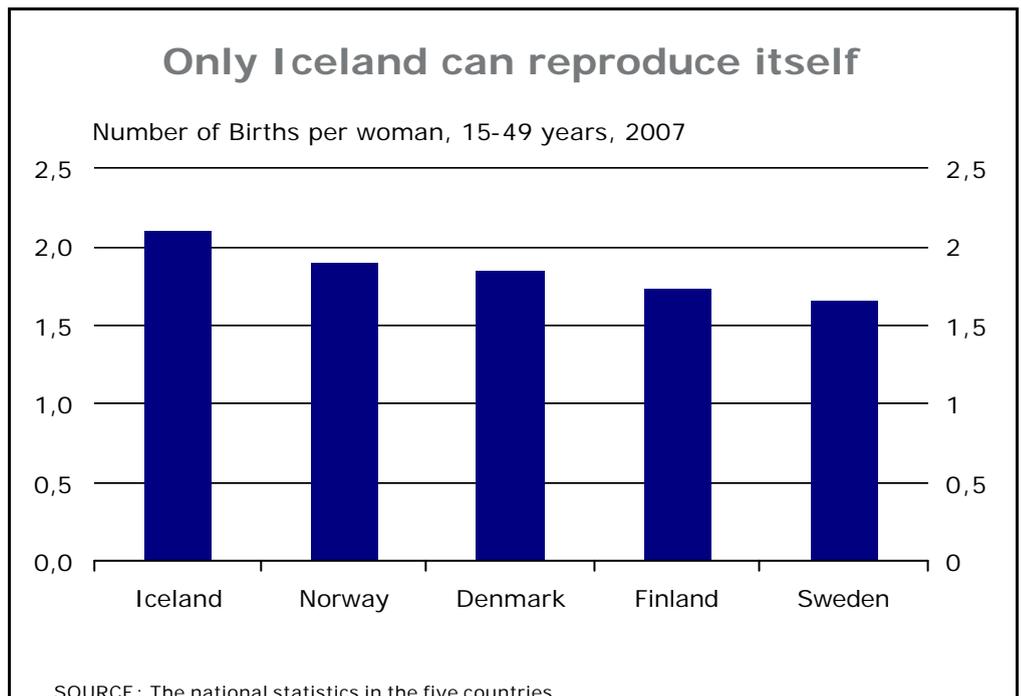
bour agreements.

- ? Employers and employees are equally free to enter into or terminate employment contracts.
- ? There are limits on minimum layoff notice. These periods vary depending on the time that the employee has served by the same employer. The limits are mutual.
- ? Limits on working time are less common than in most European countries and derive mainly from the EU's working-time directive.
- ? There are no limits on recruitment for part-time employment.
- ? There are no specific limits on recruitment for temporary employment or project-linked employment.

### Demographic developments

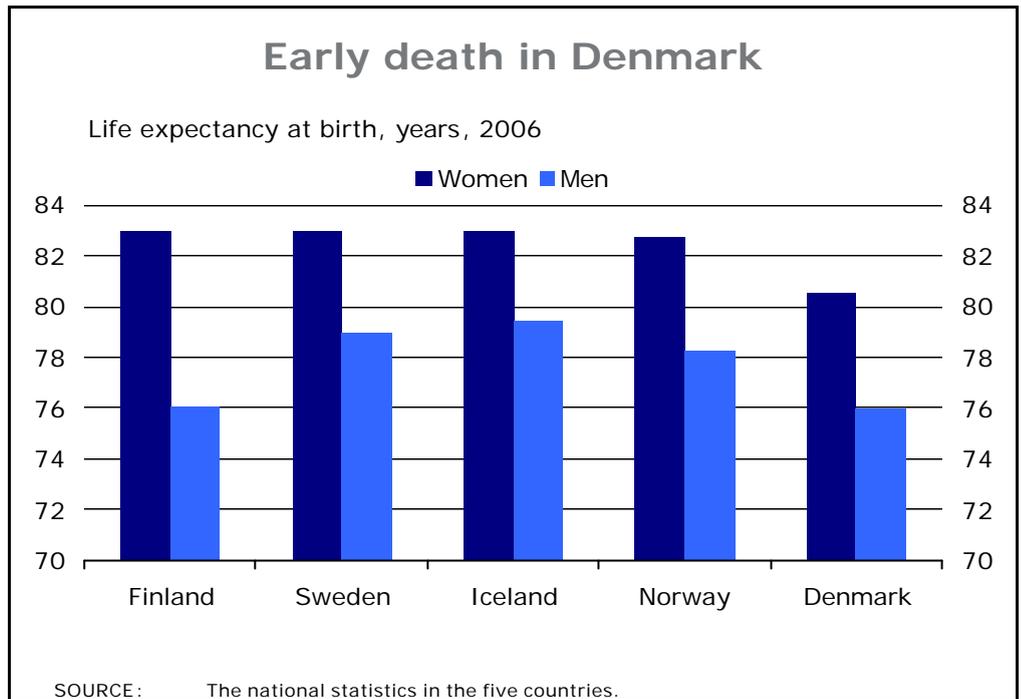
Nordic birth rates are highest in Iceland. With a birth rate of 2.1, Iceland is the only Nordic country able to reproduce itself. The lowest birth rate is in Sweden, with about 1.7 children per woman; see Figure 15.

Figure 15



An Icelandic or Swedish infant can expect to live three years longer than a newborn Danish infant; see Figure 16.

Figure 16



In Norway, average life expectancy is nearly as high as in Sweden and Iceland. Finland has the greatest gender differences in life expectancy. While men in Finland cannot expect to be elder than Danish men, women in Finland live to the same age as women in Norway, Iceland and Sweden.

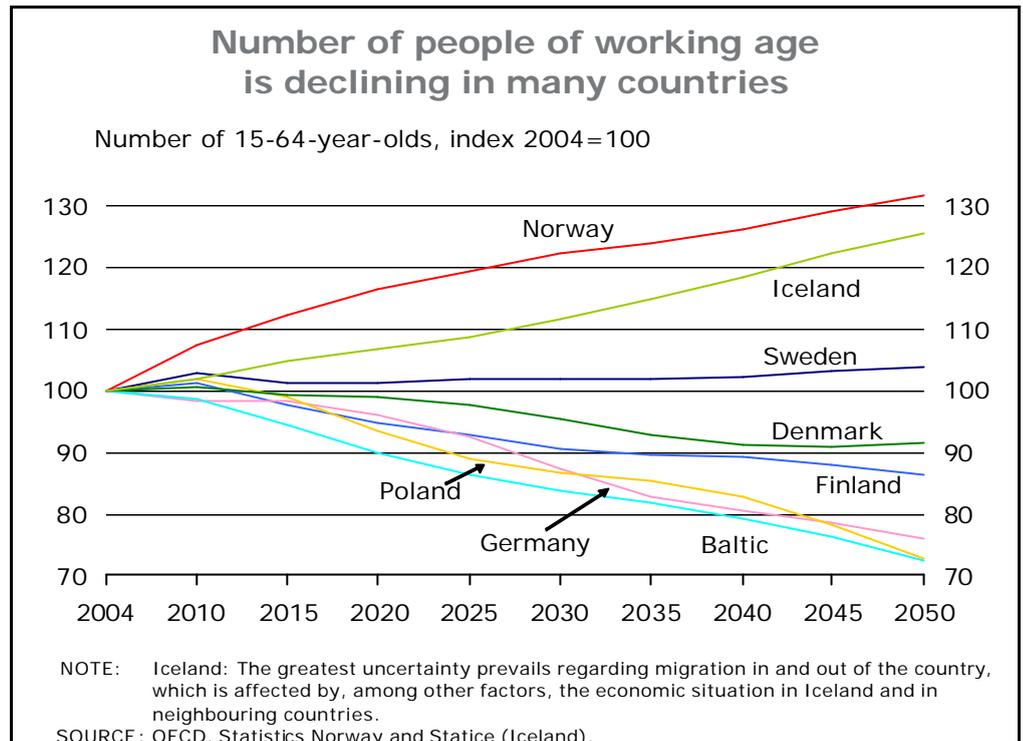
**High life expectancy increases financing pressure on the public sector**

Besides the positive fact that the population can expect to live many years, the high average life expectancy presents challenges to the financing of the public sector. A larger number of elderly citizens entail both greater expenditures for public service and more payment for public benefits.

A longer life expectancy thus necessitates, all things being equal, a later age of retirement from the labour market.

Up to the year 2050, Sweden, Norway and Iceland will experience a growth in their working-age populations. The number of 15-64-year-old Swedes will grow by about 4 %, while the number of working-age Icelanders and Norwegians will grow by 25-30%, see Figure 17.

Figure 17



In Denmark and Finland, the number of 15-64-year-olds will decline by about 10%.

Demographic prognoses are very dependent on the assumptions which enter into the calculations. In these years, special assumptions about immigration result in significant differences in the assessment in the Nordic countries.

**Positive developments in Sweden are due to among other things, immigration**

The immediate positive developments in Sweden are due to a relatively high fertility rate and to the large number of immigrants. However, this is another type of immigration than that which has taken place, for example, in Norway in recent years. Immigration to Norway has been labour migration. In Sweden, the immigrants tend to be refugees and persons entering under family reunification provisions.

That the population of working age increases is thereby not necessarily an indication that the labour force is increasing at the same rate. If immigrants have a lower rate of labour force participation, it might even lead to an even worse situation in Sweden.

**Major decline in the labour force in Poland, Germany and the Baltic states**

It is not only some of the Nordic countries which will experience a decline in the number of inhabitants of working age during the coming decades. Several other countries, from which there is significant job-motivated immigration to the Nordic countries, will be facing far greater challenges.

Hence, the number of 15-64-year-olds will decline by 10% during the next 20 years in Germany, Poland and the Baltic states. By 2050, the decline will be 20% or more.

## 5. Increasing the labour force

### 5.1 Youth in education and on the labour market

#### **Assessment**

The combination of good qualifications and an open and flexible labour market offers the best conditions for youth being able to quickly obtain employment.

As on many other points, the Nordic countries can learn from each other as concerns the education of youth and their access to the labour market.

The basis for further education and subsequent employment is a well-functioning primary school system. Finland is that Nordic country where the pupils in the primary school clearly have the best academic skills and where the most pupils subsequently go on to secondary education.

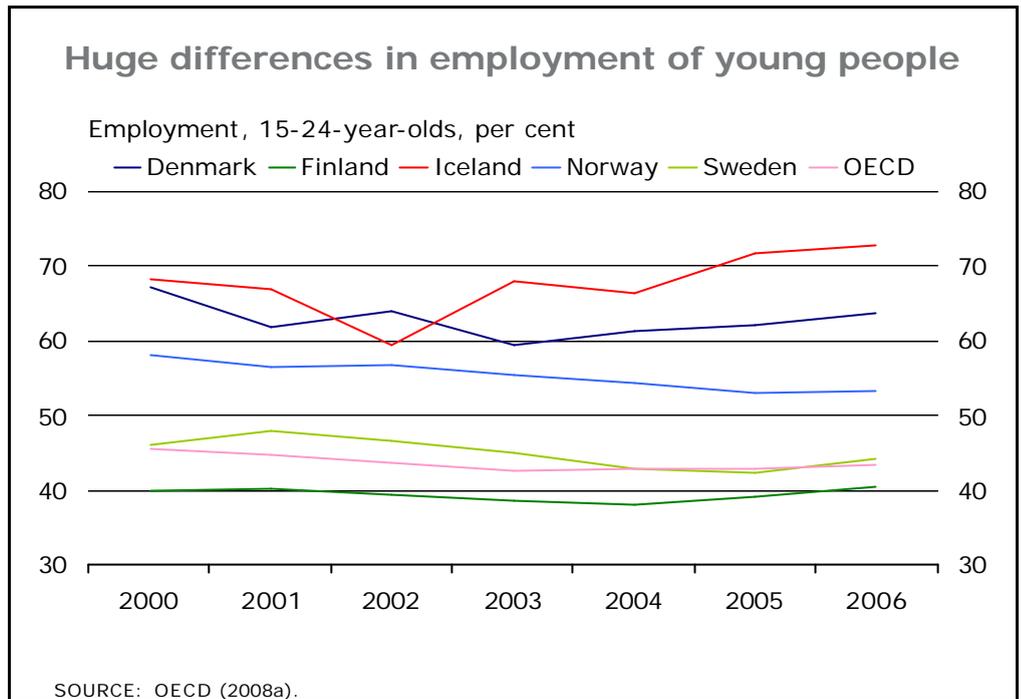
The good results in the Finnish primary school are due to two factors:

- ? the teachers in Finland are all university trained;
- ? the pupils' skills are continually tested.

Iceland and Denmark are most effective in getting the youth into jobs, Iceland and Denmark are also those countries with the highest level of flexibility in their labour markets. A flexible labour market, where the risk of hiring employees is small because it is possible to lay them off without much great costs, creates a labour market with many job openings, which is a benefit for the youth.

There are great differences amongst the Nordic countries in the proportion of young people who are employed. Iceland and Denmark have a higher employment rate for youth than the other Nordic countries, where especially Sweden and Finland are at a relatively low level. In Finland, only 40% of the 15-24-year-olds are working, which is under the OECD average, see Figure 18.

Figure 18

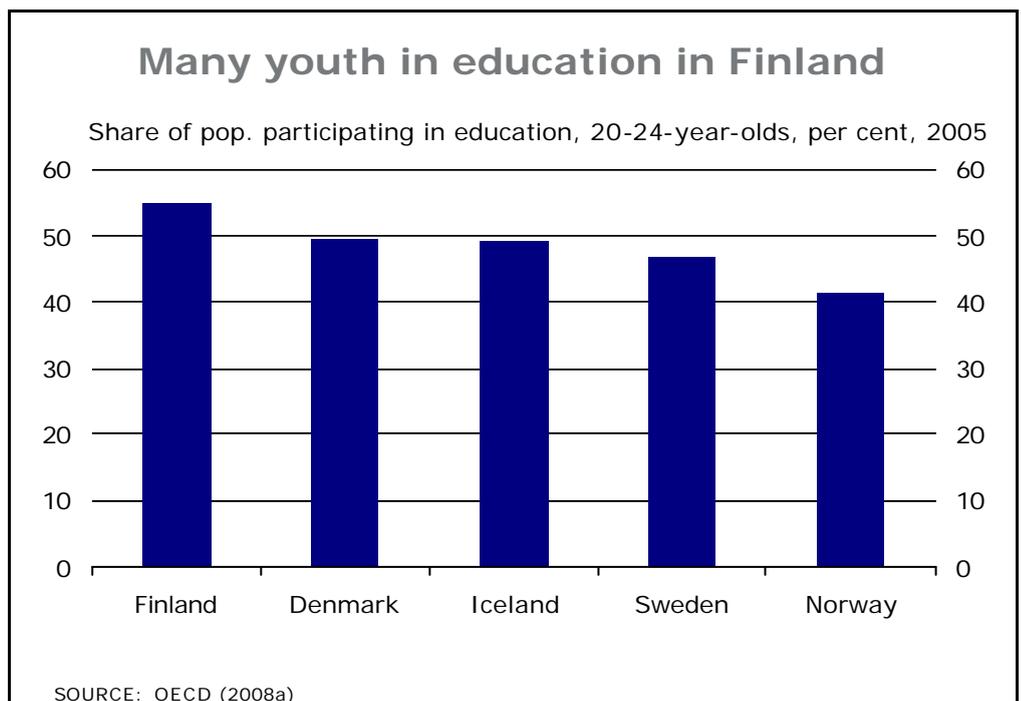


**Declining employment among Norwegian youth**

In Norway, employment among youth has been declining over the entire period from 2000 to 2006. In the other countries, the employment rate has been largely constant.

The differences in youth employment are not due to differences in the proportion of youth who undertake secondary education. Finland has the highest proportion of 20-24-year-olds in secondary/higher education, but this explains only a small part of the differences in employment rate in relation to Iceland and Denmark; see Figure 19.

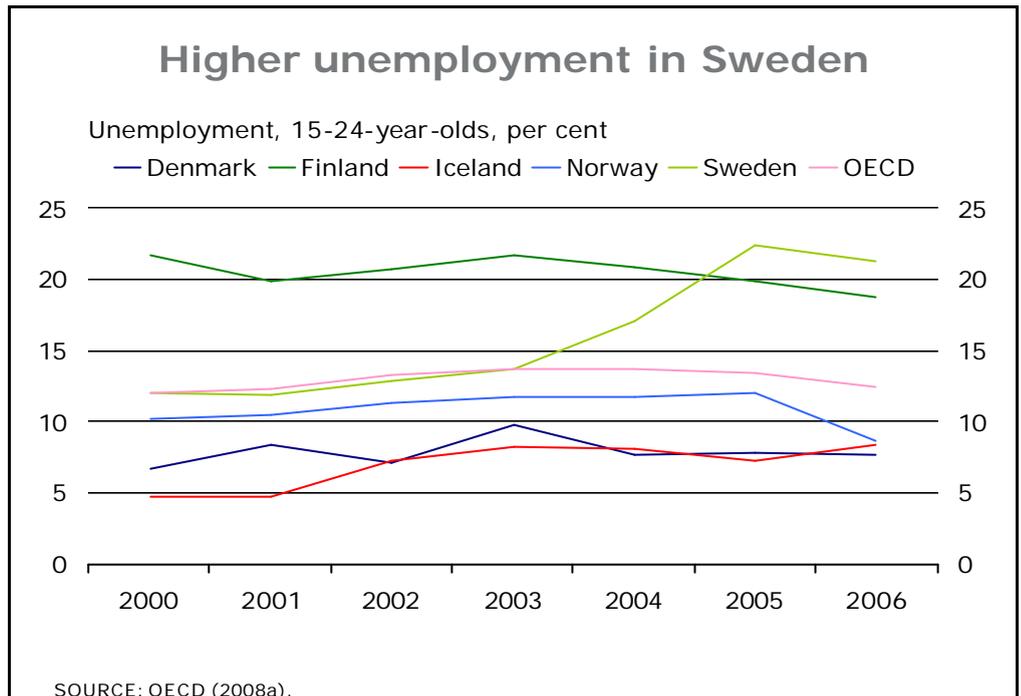
Figure 19



For Sweden and especially for Norway, the lower level of educational activity for 20-24-year-olds only increases the gap in youth employment between Norway on the one hand and Iceland and Denmark on the other.

Differences in rates of employment can be clearly seen in the rates of youth unemployment. Finland and Sweden have significantly higher youth unemployment than Denmark, Iceland and Norway; see Figure 20.

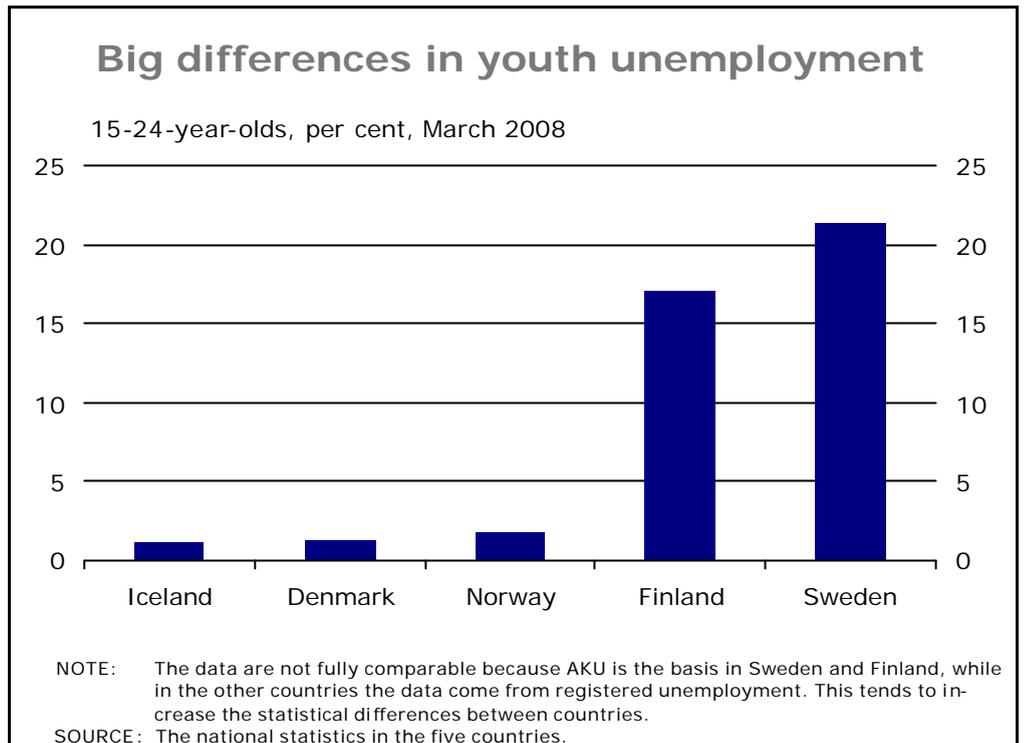
Figure 20



Youth unemployment has nearly doubled in Sweden between 2000 and 2006.

In early 2008, the differences in youth unemployment in the Nordic countries became even greater. There is generally no youth unemployment in Iceland, Denmark and Norway, while youth unemployment is high in Sweden and Finland; see Figure 21.

Figure 21



The high unemployment in Sweden can be associated with the regulations for protecting elder workers against layoffs. Such protective regulations diminish young people's access to the labour market; see the section on flexibility on the labour market.

In Denmark, which has the lowest youth unemployment of the Nordic countries, there is a less formal protection in connection with layoffs. At the same time, through active work offerings and financial incentives, Denmark has made a special effort to reduce youth unemployment.

### **Qualifications from primary school**

Pupils in primary school in Finland have significantly better qualifications than do pupils from primary schools in the other Nordic countries; see figures 22 and 23.

Figure 22

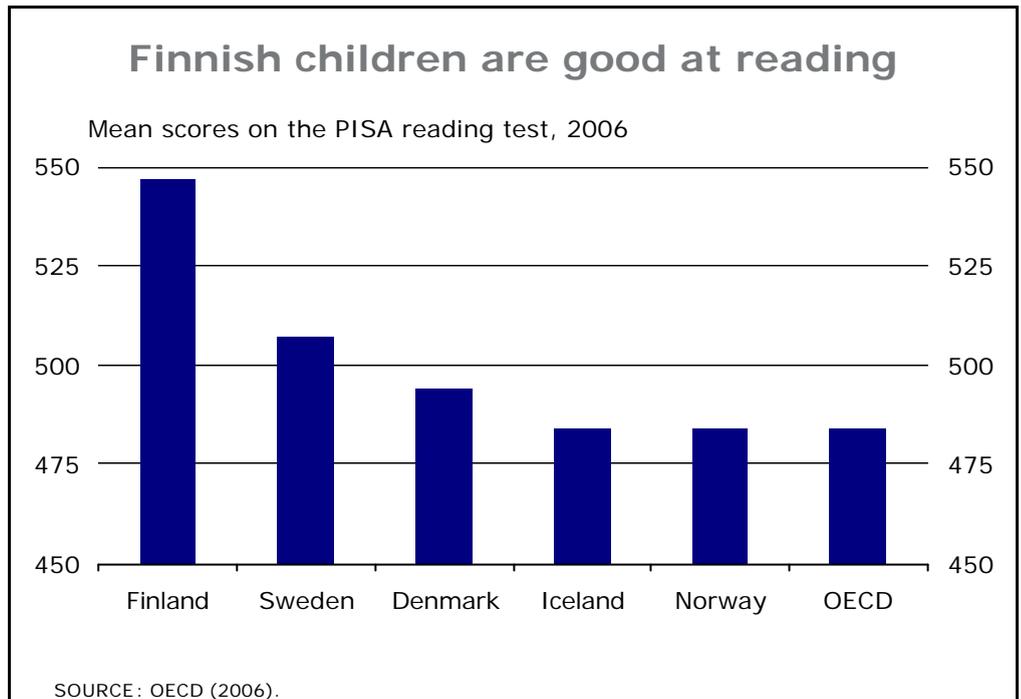
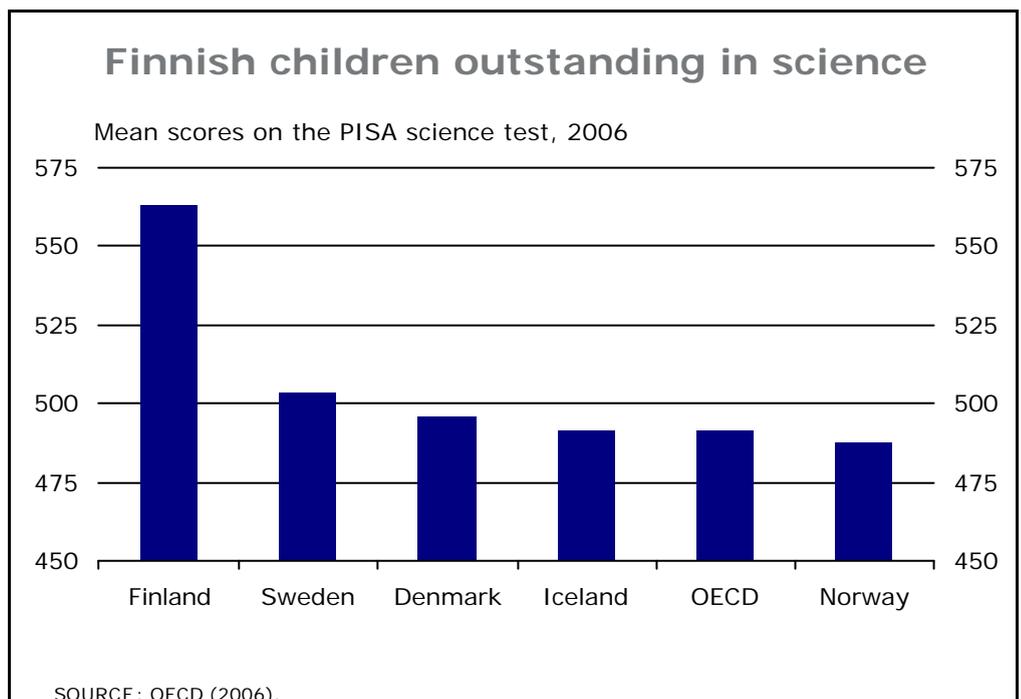


Figure 23

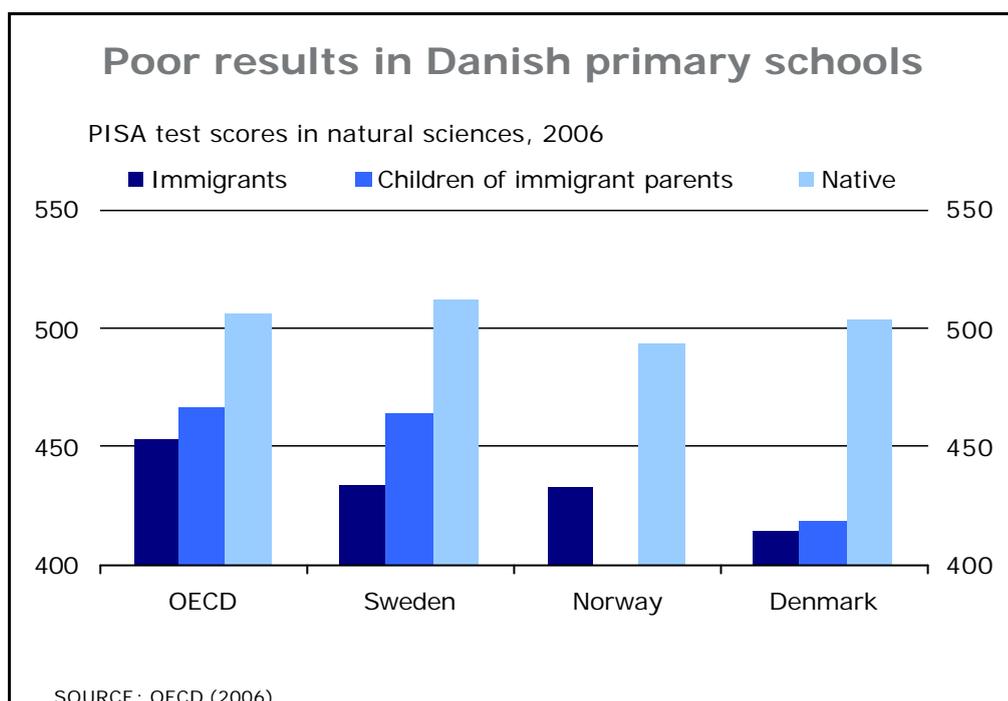


It is especially in the natural sciences that Finnish schoolchildren have better competencies than in the other Nordic countries. There are smaller differences amongst the other countries, but the ranking in both measurements is identical. After Finland, Sweden provides its primary school pupils with the best competencies, while Norway is last in the test scales.

Generally, immigrant children perform poorly in the Nordic primary schools. The difference between immigrant and native children on the PISA scores in natural sciences is greater in Denmark, Sweden and

Norway than in the OECD countries on average; see Figure 24.

Figure 24



### Immigrants perform poorly in the Danish primary schools

The difference between immigrant and native schoolchildren is greatest in Denmark, which is due to the fact that immigrant schoolchildren score lowest in Denmark compared to the other Scandinavian countries.

Children of immigrants or second generation immigrants do significantly poorer in Denmark than in Sweden and the OECD as whole. Danish-born children of immigrants do not have better academic skills in natural sciences in primary school than do children born abroad who then come to Denmark as immigrants.

In Sweden, second generation (i.e., children of) immigrants perform better than first generation immigrants.

### Initiatives in the individual countries

#### Denmark

From the mid-1970s to the mid-1990s, Denmark had a relatively high level of youth unemployment. In 1996, the 'youth initiative' was introduced. Youth below age 25 who have been unemployed for six months within the foregoing nine months, and who do not have a certified education, must either begin a general education, supported by an education stipend (about 33% of the highest unemployment benefit), or take part in a special education program of 18 months duration where the unemployment payment is 50% of the highest unemployment benefit.

The youth initiative has largely eliminated youth unemployment in Denmark, which in March 2008 was 1.2% of the workforce.

**Major shift in education policy**

After the center-right government took power in 2001, a marked shift in education policy has taken place in Denmark. At the same time, the PISA tests have shown that the Danish primary school system does relatively poorly compared to the other OECD countries.

Obligatory language stimulation has been introduced for bilingual three-year-olds who need such stimulation before starting school. The language stimulation is intended to ensure that all pupils obtain the maximum technical and social benefit of instruction in the school.

**Steps and final objectives**

There has been a greater focus on technical competence in the primary school. Long-term objectives and benchmark goals have been set which check common national goals for the specific skills that the pupils must acquire in each subject by the end of each school year.

For use in the ongoing evaluation, each pupil must have a personal plan which contains the results of and the agreed upon follow-up of the evaluation. The personal plan should form the basis for the school's cooperation with the parents regarding the pupil's benefit from teaching.

Extra classes in History and Danish in the lower grades, among other things, in order to strengthening basic reading skills.

Final examinations at the conclusion of the 9th grade are now obligatory.

**Test of skills**

A national IT-based test has been introduced. The test results are intended to create a background for the publication of a national performance profile. This tool would give the municipalities and the schools knowledge of how pupils in each school performed on the tests when measured against the total national results.

**Still far to go before 95% of the youth have secondary education**

In terms of the general qualifications of the work force and Denmark's possibilities to compete in the global economy, the government has set a goal that 95% of Danish youth should have completed secondary education by 2015; at present, about 82% of youth have completed secondary school.

**More should be enrolled in the basic vocational education**

An important element for achieving the 95% objective is the strengthened use of 'basic vocational education' (EGU). The basic vocational education is a practice-related short vocational education for youth with weak personal and vocational competencies. EGU is a qualifying education of 18-36 months duration, which alternates between theory and practice. School instruction is limited to a maximum of 40 weeks. The target age group is those between 16 and 30 years of age.

The municipalities have the obligation to offer the basic vocational education to those youth in the target group.

**Adult education and in-service training**

In late 2007, the government and the partners on the labour market concluded an agreement for significantly strengthening the vocational adult education and in-service training.

The tripartite agreement is an indication that adult education and in-service training play an important role in maintaining and further developing the qualifications of the workforce, and ensuring that firms and employees are equipped for the challenges of the future labour market.

The key elements of the agreement are increased state financing of operating costs, more flexible forms of conducting the courses, and better frameworks for offerings.

At the same time, the parties on the labour market, in connection with the 2007 agreement, agreed to establish special Competence Development Funds to also support the increased use of adult education and in-service training.

### *Finland*

Finland's good results on the PISA tests are on one hand based on the fact that the entire age cohort in Finland is equally educated and that everyone receives education. On the other hand, Finland does not concentrate on elite pupils. Teachers are still appreciated, and Finland has good teachers.

Finland tries to direct 65% of any given age cohort to go on to secondary education. However, this does not meet the needs of the economy very well. According to surveys, there is a greater demand for professionals than for those with secondary school qualifications. Half the students of an age cohort should be directed to vocational education.

### **The social guarantee**

In Finland, the decline in the rate of unemployment of young people is due to the 'social guarantee', which has been implemented from the beginning of 2005.

The objective of the social guarantee is to promote education and employment of people under 25 years of age, to prevent prolonged unemployment of young people and to prevent marginalization from the labour market at an early stage. The social guarantee requires an immediate judgement of the need of services offered to a young person as well as a job application plan and offering of service according to the agreed measures.

Under the guarantee, a young person who has been unemployed for more than three months is entitled to alternative measures to improve his or her situation. The selection of services includes education, wage support and on-the-job training as well as workshop activities.

The goal is to ensure that young people obtain permanent jobs, not simply to end the unemployment. The employment office appoints counsellors for the young persons and special teams to assist them.

The current situation on the Finnish labour market, especially in growth centres, favours young skilled persons. The unemployment period for young people is of shorter duration compared to older age groups. In December 2006, the unemployment period for those 15–19 years old averaged nine weeks, compared to 12 weeks for 20–24-year-olds. The average duration of unemployment for all age groups was 47 weeks.

### *Iceland*

### **Three perspectives**

The challenge of getting more people into the work force in Iceland is approached from three perspectives. First, what can be done domestically, i.e. what can be done to activate even more Icelanders to work? Second, how do we attract people, especially well-educated professionals, to come and work in Iceland? Third, how can productivity be in-

creased?

As regards productivity, targets have been set to promote education and thereby increase the number of people finishing their secondary educations and graduating with specific qualifications. In the future, increased productivity in Iceland will be based upon highly skilled, educated workers who have been taught to embrace innovation and entrepreneurship.

**New legal framework for life long learning**

A new law proposal on adult education will be presented to Parliament this year, inter alia setting a formal framework for the Education and Training Service Centre that was established by the social partners in December 2002. The Centre is a collaborative forum of the founding parties for adult education and vocational training, in co-operation with other education bodies. It operates in close collaboration with the Ministry of Education, with whom it also has a service agreement. The Centre targets those who have not completed the upper secondary level of education. The target group comprises 40% of those in the labour market, although the ratio varies between age group and regions.

A revision of the formal education system resulted in four new proposals to Parliament, opening up the secondary schools to necessary reform and innovation in educational offerings. These proposals were adopted in May 2007.

**Target set in 2008**

During negotiations of the general collective bargaining agreements in February 2008, the social partners obtained a commitment by the Government that no more than 10% of the work force shall be without formal secondary education by 2020. This target is to be obtained by various means, i.e. by a more varied offer in education by formal schools and life-long learning centres and by evaluation and recognition of documented competence.

*Norway*

**Labour market for young people**

The good labour market in Norway also serves to provide young people with extensive employment opportunities. Generally speaking the youth employment rate is low. The youth guarantee ensures that young people below 20 years of age who has not been admitted in a school or been given a job will be offered participation in a labour market measure. Young job seekers between 20-24 years of age who have been fully unemployed for the last three months or longer are included in a follow-up guarantee whose main focus is active job seeking, self-activity and motivation.

**Student assessments – poor results**

Norway's poor results in international student assessments have given rise to a heated public debate on the Norwegian education policy, and the need for measures. It was only after the results of the 2006 PISA Survey were published in December 2007 that a broad understanding was reached as to the challenges we are facing. The main objective of recent measures has been to turn this development around through a White paper entitled Culture for Learning and the subsequent educational reform which started in 2006 and which is currently being implemented over a three-year period. Broad political agreement exists with regard to the measures in this reform which is directed towards creating a larger incentive for learning in the Norwegian basic education, in particular a strengthening of the basic subjects and better facilitation for poor achievers.

The changes in the educational reform entitled the Knowledge Promotion are:

- ? To strengthen basic skills such as oral communication, ability to read and write and do arithmetic's.
- ? Reading and writing training emphasised from first grade.
- ? New curricula in all subjects with clear objectives for the students' and the apprentices' competencies.
- ? New distribution with regard to subjects and the number of lessons allocated to each subject.
- ? New structure relating to the courses offered in upper secondary education.
- ? Greater local freedom of choice relating to work methods, educational material and organisation of the tuition.

#### **Remedial action**

A trial scheme of entitled documentation is early work experience directly from lower secondary school (Praksisbrev) as part of the upper secondary education system. It is intended for students who will benefit from entering directly into practical education in stead of two more theoretical years in school. The training is facilitated with an emphasis on practical vocational training, and after completing the first two years the candidates will receive an applicable documentation for the Norwegian labour market. They can also complete a trade certificate through two more years in upper secondary school.

#### **Entrepreneurship in education**

Since NHO initiated the foundation of JA-YE Norway in 1997 more than 100,000 students and 15,000 teachers have been through their various programmes on entrepreneurship.

The organisation has received several international recommendations for its documented achievements, most recently the prestigious Model Organisation Award in May 2008.

Reports published in December 2006 on entrepreneurship and entrepreneurship education made the following conclusions on key findings:

- ? Entrepreneurship leads to economic growth
- ? Entrepreneurship leads to lower unemployment rates
- ? Entrepreneurship Education can contribute to more entrepreneurial culture
- ? Entrepreneurship Education can develop young people's creativity, self esteem, team working skills and sense of responsibility

Students who receive Entrepreneurship Education are more likely to become entrepreneurs

#### *Sweden*

#### **High unemployment for young people**

The high level of youth unemployment in Sweden is considered as a great problem and partly explained by a combination of high starting salaries in contracts and a comprehensive level of employment protection which make it difficult for young, often inexperienced people to find a job. The principle of last-in-first-out in redundancies also places young people in a vulnerable position on the labour market.

Since 2008, young people between the ages of 16 and 24, who have

been unemployed for the past three months, have been covered by a new labour market programme, "Job guarantee for young people", which is intended to provide help in finding work, work experience or a return to education within the regular educational system. The pay roll taxes (in general ca. 32 per cent of the wage) has also been decreased since July 2007 to around half as much for people in the age between 18 -24.

During the past year, the favourable economic cycle has, however, contributed to a substantial reduction in youth unemployment. Figures from Eurostat show that youth unemployment in Sweden fell from just over 20% in May 2007 to 15.4% in May 2008.

### **Major changes in progress in Sweden's education system**

Since the centre-right coalition took office after the 2006 election, a number of changes have been announced to the education system. The main justification for this has been stated to be poor knowledge performance, a high drop-out rate and a high level of youth unemployment. The changes focus on improving quality and knowledge levels in schools, partly through grading, more tests, increased teaching competence and better organisation. In addition, targets will be clarified and checks and follow-ups made more stringent.

Around 1 in 10 pupils leave compulsory school without any qualifications. At upper secondary school level, 1 in 4 do not obtain any qualifications or drop out. Measures of knowledge levels among pupils graduating have shown a downward trend. This picture is confirmed by the PISA survey, which shows Sweden, albeit from a fairly high level, declining relative to other OECD countries.

Within compulsory school, the proposed changes are aimed primarily at ensuring that all pupils are able to read and write. Several changes are in hand: more resources for elementary levels, a greater number of national tests, the reintroduction of specialist teachers and an increase in the number and level of detail in certificates. In addition, targets are being reviewed with the aim of making them more precise.

For upper secondary schools, fairly radical changes are being proposed. Their purpose is being clarified as either leading to qualifications for higher education or to employability. Two examinations are being introduced, one in preparation for further studies and one vocational. In principle, the education provided will follow one of the 19 set national programmes, in which the course content will be set centrally to a significantly greater extent than happens now. The 'consumers', i.e. the higher education establishments and employers, will be able to influence the formulation of the programmes and examinations. Another innovation is that it will be possible to obtain vocational qualifications through a newly-established apprenticeship scheme, where at least 50% of the training will be given at the workplace. The plan is for the new upper secondary schools to be fully up and running by autumn 2011.

Around 11 % of students are currently on what are known as 'the individual programme' at upper secondary school. This is a collective name for more or less individually-tailored studies for students who, for a variety of reasons, are not on a national programme. The aim is for these students to become qualified to move onto the regular upper secondary school courses. This has not, however, worked out as intended. It is proposed to phase out this system, and replace it with additional tuition

for up to a year within the compulsory school framework for pupils who do not obtain a leaver's certificate. There will also be individual options for education and practical work, but with increased coordination with other municipal operations and others.

Teacher training is to be reformed in the direction of increased specialisation, including higher standards and clearer research involvement. At the same time, a system of a probationary year for newly qualified teachers, a register of teachers and the introduction of a clear career path within the teaching profession have also been proposed. A change in training for vocational teachers is being considered, with clearer assurance of relevant vocational knowledge through validation and shortened pedagogical training.

Virtually all post-upper secondary school vocational education will be brought together under the auspices of a "vocational university". As before, however, the education will be carried out by a range of players; municipalities, private organisers, adult colleges and universities or institutes of higher education. They will be governed by a common framework which stipulates certain minimum standards in areas such as quality of education and tie-in to labour market needs, and will lay down examination and grant conditions. In the main, this will be organised along the same lines as Advanced Vocational Training is today, but will be considerably wider in scope. The vocational university is expected to be launched in autumn 2009.

Far-reaching changes are also in progress in higher education. The focus will be on achieving greater autonomy for universities and institutes of higher education, and on stimulating increased specialisation. It is proposed that central government resources become more closely linked to the quality of education and, to some extent, to the actual results achieved. It is also proposed to rank courses and institutions to facilitate students' choice and promote quality.

## 5.2 Unemployment insurance

### Assessment

The purpose of unemployment insurance should be to ensure a share of the prior income for a limited period, allowing for an acceptable standard of living and at the same time ensuring that it can always pay to leave the unemployment insurance system and return to work.

In this light, the organisation of unemployment insurance functions best in Sweden and Norway, while the Danish unemployment insurance is inflexible because of the high compensation for previous income and the prolonged period in which the individual can receive unemployment benefits.

Sweden has recently changed its unemployment insurance system so that payments now decline with the length of unemployment. The effect of the Swedish changes will be interesting to follow for the other Nordic countries.

There are great differences in the unemployment insurance systems in the Nordic countries. For example, the period of right to unemployment benefits varies from a bit more than a year in Sweden (although after that period there is nearly 2 years with job- and development guarantee with 65 %) to four years in Denmark; see Table 3.

Table 3

Very different unemployment insurance systems					
	Denmark	Finland	Iceland	Norway	Sweden
Maximum duration of benefits in years	4	2	3	2	60/90 weeks <sup>1)</sup>
Compensation level based on previous income	90	45/20 <sup>2)</sup>	70	62,4	80/70/65
Maximum payment per week, in euro	469	No limit	275	610	364
Declining payments with length of unemployment	No	No	No	No	Yes
Prior employment requirement	12 month. over the preceding 3 years.	10 months over the preceding 2 years	25% of full-time work over 3 month	Income of €14,065 over the preceding year	6 month-1 year
Unemployment insurance funds	Yes	Yes	No	No	Yes

NOTE: 1) Non-breadwinner/breadwinner. On several points some of the countries have additional regulations which supplement those summarized in this table.  
2) In Finland, there is a basic payment of about €25 per day. In addition, 45% of the previous wage, up to €2,000 per month and then 20% of the salary.

SOURCE: Nordic employers' organisations.

Compensation based on prior income is very high in Denmark. The 90% compensation level results in a situation that for those with the lowest incomes, there is often no real difference in after-tax income between wages and unemployment benefits.

Sweden has also had high levels of compensation, but recent reforms have changed this, so that the amount of compensation now declines with the duration of unemployment.

### **Measures in the individual countries**

#### *Denmark*

**Two payment systems** Payments for unemployment in Denmark are of two types. Members of an unemployment insurance fund receive unemployment benefits from the fund. Those who are not members of an unemployment fund can receive welfare allowances from the municipality.

Unemployment benefits are higher than welfare allowances and are paid without regard to individual assets or the spouse's income. The highest unemployment benefit corresponds to a wage of €2,200 per month.

Payment of the welfare allowance requires that the individual cannot support him/herself alone through own assets or the spouse's income. The size of the welfare allowance varies with age, marital status and breadwinner obligations towards dependent children.

At least 52 weeks' work within the preceding three years gives the unemployed person the right to unemployment benefits for up to four years. Payments can be as high as 90% of the previous income before taxes.

**Requirement to be available for work** The unemployed person has the obligation to be available to the labour market in order to receive unemployment benefits or a welfare allowance. This means that one must be willing to work, to actively seek employment and to be able to take a job with one day's notice. Similarly, the unemployed person is obliged to participate in meetings and offerings provided by the Job Center.

If the unemployed individual does not respect the regulations on job availability, benefits will be stopped for a 'quarantine' period, typically three weeks.

**The payment system does not support flexicurity** The weakness of the Danish unemployment insurance system is that it does not effectively support the flexicurity model. Unemployed persons with low wages have very little or no incentives to obtain jobs, while those who had high wages have coverage of only 30% or less. This makes the unemployment benefits into a poorly functioning insurance payment because the coverage is low.

In reality, the Danish unemployment compensation is a flat rate social policy payment.

## *Finland*

### **A reform is coming**

In Spring 2007, the government of Finland began a total reform of the social security system. The deadline for the committee's work is the end of 2009. The goal of the reform of the social security system is to improve work motivation, diminished poverty and guarantee a sufficient level of social security in every situation of one's life. To improve the function of the labour market, a reform of taxation, basic security (including housing allowance) and unemployment security will be evaluated in connection with the reform of the social security system.

### **Two systems**

The basic income of an unemployed job-seeker is guaranteed by unemployment benefits and by the labour market allowance. Unemployment benefits are paid either in the form of a basic allowance or as an earnings-related allowance.

The basic allowance and earnings-related allowance are paid on the same basis, but the earnings-related allowance requires the individual to be a member of an unemployment fund. The basic allowance is paid out continually during the period of unemployment as a job-seeker. This requires that unemployed personal to have had a certain length of previous employment, known as the 'employment condition'. The basic allowance is paid for a maximum period of 500 days. An exception here is the payment of additional days to older recipients.

A labour market subsidy is paid to those unemployed job-seekers who do not meet the employment condition or who have received the basic allowance for the maximum period. The subsidy is paid according to means testing and has no maximum duration.

Unemployment benefits as a whole include income security covering job training to re-enter the labour market. An individual who takes part in job training receives a training allowance. An individual taking part in a training course independently receives a basic training allowance.

### **Unemployment pension**

Older persons, born in 1949 or before, who are long-term unemployed may receive an unemployment pension based on their earnings-related pension and the national pension. Persons born in 1950 or later are no longer entitled to unemployment pension. They are compensated with a longer period of unemployment allowance days.

### **The sabbatical leave**

In Finland, employees are encouraged to take sabbatical leave in the form of job alternation leave. Under the job alternation program, the employee and the employer agree on unpaid leave (90–359 days), and the employer undertakes to employ an unemployed job applicant from the employment office during the leave.

The current law is in force until the end of 2009, but the intention is to make it permanent. An employee taking job alternation leave receives a compensation amounting to 70 per cent of the unemployment benefit, or up to 80% if they have over 20 years of work experience. Since the year 2000 17,000–19,000 persons have been on job alternation leave.

Those employees most often using job alternation leave work within health care and nursing and within the education sector. Job alternation leave is problematical in the sense that under conditions where the work force is decreasing, it encourages people to leave the labour mar-

ket. The advantage of the job alternation leave program is that the leave may help persons cope at work over the long term.

### *Iceland*

**Law revised in 2006** A new law on unemployment benefits was passed by the Althingi in June 2006. The right to benefits is calculated according to the type of work and the percentage of working time during the last 12 months.

**Income related benefits** The main change was the introduction of income-related benefits for the first three months of unemployment. The calculation is based on 70% of the average total wages for six months during the two months prior to losing the job. There is, however, a ceiling of €1.924. This change, despite considerable costs to the employers, was agreed upon between the social partners while revising their collective agreement in late 2005.

**Supporting necessary flexibility** SA considers it among its major tasks to prevent changes that are likely to be detrimental to the performance of the labour market. In Iceland, employers can recruit and dismiss workers freely and are not encumbered by costly regulations. Flexibility must be maintained so that companies can obtain the appropriate skills at the right times, at competitive costs, and alter their work organisations in response to changing conditions. At the same time, individuals need to be encouraged to adjust to change and not resist it. Flexibility of the labour market and responsibility are closely linked, a process now conceptualized with the term 'flexicurity'. SA was therefore prepared to link income and employment benefits for a period in order to give extra time and added financial support to those workers laid off in the flexible labour market while they look for new jobs.

Full unemployment benefits amount to €1,185. The daily allowance is €55 Euros. Unemployment benefits are based on working time, and in order to qualify, the individual has to have worked 25% of a full-time job for three months.

**Three years benefit periods** The maximum length of unemployment benefits period, formerly five years, has now been reduced to three years. A new period can begin again after 24 months. Six months full-time work restores the full right to unemployment benefits.

### *Norway*

**The National Insurance Scheme** The National Insurance Scheme in Norway is a compulsory insurance and pension scheme that applies to all Norwegian citizens. The Scheme shall provide financial assistance in the event of illness, births, unemployment, disability, retirement pension, for single parents, surviving spouses, and to cover medical expenses, rehabilitation and vocational rehabilitation. The National Insurance Scheme's Basic Amount, often called G, is a calculation factor that is important in relation to benefit entitlement rights, and the size of the amount granted. (One G constitutes €8,864 as of 1 May 2008).

The National Insurance Scheme is a pay-as-you-go scheme financed over public budgets. It is chiefly financed through the employer's contribution that is a regionally differentiated payroll tax with a maximum limit of 14.1 % and the social security contribution paid by employees as gross tax of 7.8 %. As a percentage of the financing the employer's

contribution was 42.5 % and the membership fee was 29.3 % in 2006.

<b>Daily Cash Benefit during Unemployment</b>	During unemployment a daily cash benefit is granted in Norway intended to compensate in part for the loss of a salary.
<b>Reporting Requirements for Job Seekers</b>	In order to qualify for daily cash benefit during unemployment, the unemployed person must register as a job seeker and thereafter comply with the reporting requirements. The right to a daily cash benefit ceases to apply if the unemployed person, without reasonable cause fail to report on the stipulated day, until such time as reporting recommences.
<b>Minimum Income Requirement</b>	In order to qualify for daily cash benefit a minimum income requirement must be met. The unemployed person must have earned an income from work corresponding to a minimum of 1.5 times the Basic Amount, as stipulated in the National Insurance Scheme, or a minimum income level of 3 G over the course of the three preceding calendar years.
<b>Bona Fida Job seeker</b>	An important requirement which must be met in order to qualify for daily cash benefit is that the unemployed person is a bona-fida job seeker. A bona-fida job seeker is defined as a person capable of work and willing to do any type of work, paid in accordance with collective wage agreements or established custom, anywhere in Norway, irrespectively of whether it is full-time or part-time. Participation in labour market measures also fulfils this requirement. The unemployed person's age or other weighty reasons may ease these requirements.
<b>Temporary Suspension of the Daily Cash Benefit</b>	<p>The right to a daily cash benefit may be suspended for a limited period of time if the unemployed person, without reasonable cause refuses to accept work or participate on a labour market measure. The first time such an event occurs, the right to a daily cash benefit shall be suspended for a period of 8 weeks. If such an event has occurred twice within the last 12-month period, the right to a daily cash benefit shall be suspended for a period of 6 months.</p> <p>The right to a daily cash benefit may also be suspended for a limited period of time if the unemployed person himself without reasonable cause fails to secure an income as an employee or if the job seeker fails to show up for a consultation with the Norwegian Welfare and Labour Service – NAV.</p>
<b>The Calculation Basis has an Upper Limit of 6 G</b>	The daily cash benefit is calculated based on income obtained from work for the last calendar year, or based on the average income from work for the last three calendar years if this serves to provide a higher calculation basis. The calculation basis has an upward limit of 6 G. (As of 1 May 2007 this constitutes € 56,260).
<b>A Compensation Level of 62.4 %</b>	The daily cash benefit is paid five days a week with a daily rate of 0.24 % of the calculation basis. Thus, the compensation level is 62.4 % of the unemployed person's previous income before taxes. In addition, a supplement is granted to employed persons supporting dependent children. The maximum compensation level, including the supplement for dependent children may not exceed 90 % of the calculation basis. A holiday supplement is also granted for persons who have been receiving daily cash benefit for more than 8 weeks during a given calendar year.
<b>A Benefit Period of 2 Years</b>	The benefit period has been stipulated to 104 weeks for individuals who have previously earned an income from work of at least 2 G. In cases

where the person's income has been less than 2 G, a full benefit period constitutes 52 weeks. Unemployed persons above the age of 64 may receive a daily cash benefit for a consecutive period until they reach 67 years of age.

**A job insertion guarantee for the long-term unemployed**

For individuals who have completed a benefit period of 104 weeks and still remain unemployed, a waiting benefit has been introduced. This benefit scheme shall cease to apply as of 1 July 2008. As a replacement, a job-insertion guarantee was introduced on 1 January 2008. This guarantee means that persons, who have been fully unemployed for a period of 2 years, shall be offered participation in a labour market measure.

**A Well-constructed scheme, but the benefit period is too long**

All in all, the Norwegian daily cash benefit scheme is well constructed, both with regard to compensation level and the fact that it has a time-limit. It is also well connected to a distribution system which makes it easier for unemployed persons to return to paid work. However, the benefit period should be stipulated to one year with the possibility of extending it for a further one year if required during periods of particular high unemployment. The daily cash benefit is meant to be a compensation for the loss of income from work. The fact that a supplement for dependent children is included in the scheme serves to weaken the incentive structure. Such supplements should therefore be removed from the temporary income security systems.

*Sweden*

**Major changes in the rules for unemployment benefit**

Unemployment benefit is paid either in the form of a basic allowance, or, to members of an Unemployment Insurance Fund who fulfil the membership and work condition, as an income-related benefit. The vast majority of employed people are members of Unemployment Insurance Funds, which are usually administered by the trade unions. The following rules apply to those with a right to income-related benefits.

After it took office in autumn 2006, the Centre-Right Coalition Government implemented major changes to the rules for unemployment insurance.

**Benefits reduced step by step**

Benefit levels starts at a lower maximum and are reduced step by step, the benefit period has in practise been shortened (since it no longer is possible to get a new period after the first one without having fulfilled a period of 6 months work) The requirements for the unemployed to seek work have been made more stringent.

Benefit levels are 80 per cent for the first 200 days with a maximum of SEK 680 per day.

For the subsequent 100 days, the benefit level is 70 %. Unemployed persons with dependent children under 18, however, face a reduction to 65 % only after the first 450 benefit days.

**Job- and development guarantee**

Claimants who have claimed for 300 benefit days in a benefit period (450 for those with children under 18) and still are unemployed are given a "job and development guarantee" during at maximum additional 90 weeks, and are then granted activity benefit (of 65 % if they are insured with an Unemployment Insurance Fund) on condition that they participate in the activities specified in the guarantee.

Under the previous system, an unemployed person was allowed to limit job applications to his or her own job area and to places in close proximity to his or her residence for the first 100 days. This right, which was introduced in 2001, was abolished in 2007. The current requirement is to seek "suitable" work.

Along with the limitations in the ability to claim unemployment benefit and the reduction in benefit level, the contributions to the Unemployment Insurance Fund by those in work have increased. In addition, the tax deduction for trade union dues and contributions to the Unemployment Insurance Fund has been abolished. About 500 000 people have left the Unemployment Insurance Funds since 2007.

The changes have contributed to a significant drop in the number of companies which consider that the level of unemployment insurance makes recruitment difficult. According to the Confederation of Swedish Enterprise's recruitment survey for 2007/08, "Applicants sought", the proportion of companies stating that the level of unemployment benefit had made it difficult for them to find the right person for the job has fallen by two-thirds, from 27 per cent in 2004 to 8 per cent in 2007.

### 5.3 Immigration and emigration of labour

#### **Assessment**

In all the Nordic countries there is an acknowledgement that a continued economic development is dependent upon immigration of labour. Immigration of workers has increased significantly, and in all the countries, new and different initiatives have been carried out. The many different initiatives entail good possibilities to transfer positive experiences between the countries.

Denmark has eliminated restrictions on workers coming from the East European EU countries. In terms of citizens from third countries, the Danish fast-track 'job-card' has been expanded, and firms have obtained better possibilities to bring employees into Denmark. Denmark will also focus on 'branding' itself as a good country in which to work. In order to attract highly qualified Indian workers, for example Denmark is establishing a 'Work-in-Denmark' office in Delhi.

New laws on residence and work permits adopted this spring in Iceland are meant to reduce the time needed to obtain permits to a few days or weeks. Rules on granting work permits were made more flexible and priority will be given to granting residence permits for people coming to work or study.

In Norway, all the authority functions concerning foreign labour have been collected into a single unit. The experiences to date have been very positive.

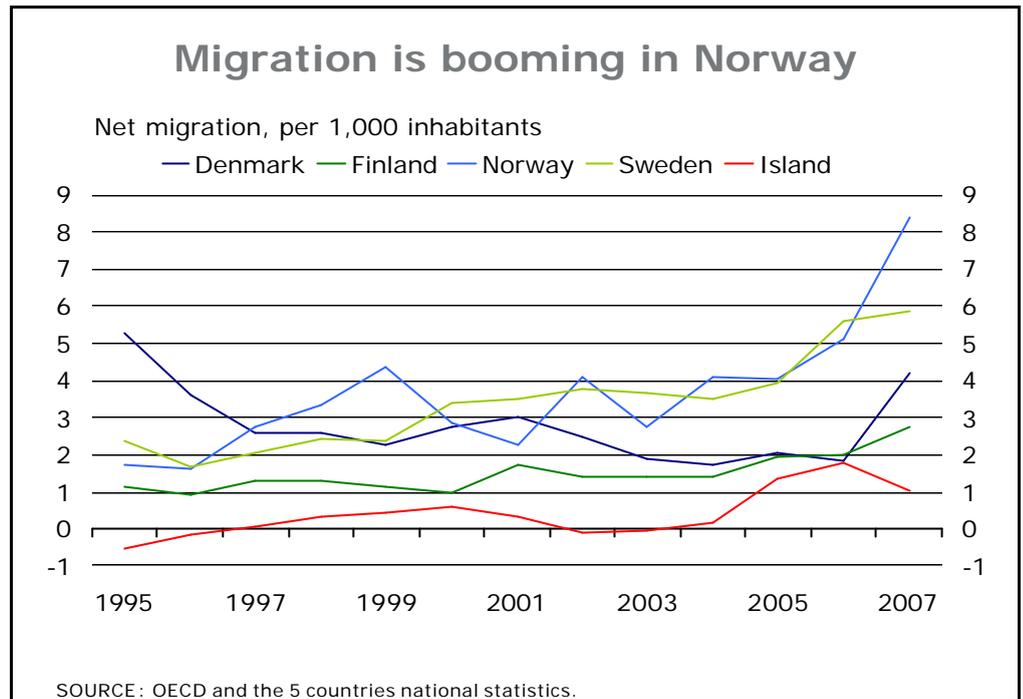
In Sweden, the government has proposed that, starting from December 15 2008 firms can decide themselves if they need to recruit workers from outside the EU as long as the positions have been advertised in the common European labour exchange (EURES).

In Finland there are several propositions in preparation to make it easier for firms to recruit workers from outside the EU. The government has not yet given proposals to the parliament. The major changes can be expected in the year 2009.

Nevertheless, Nordic firms attempting to recruit employees from abroad continue to experience delays, bureaucratic administration and complicated rules.

In the mid-1990s, the net immigration to Denmark was more than double the size of net immigration to the other Nordic countries, see Figure 25.

Figure 25



**Fewer immigrants to Denmark ...**

By 2001, the large immigration to Denmark created a political majority to limit immigration of refugees and family reunification. The net immigration to Denmark has subsequently been at a level equivalent to Finland and Iceland, while immigration has been about twice as great in Sweden and Norway.

**...but significant change in 2007**

This immigration picture changed significantly, however, from 2006 to 2007. Net immigration to Denmark and Norway more than doubled. In both countries, immigration takes the form of labour migration. In 2006, the labour migration to Norway exceeded family reunification as the main cause of immigration, and at the same time there has also been growth in the number of asylum-seekers. Immigration to Norway continues to increase very significantly, despite the great growth in immigration to Denmark, growth in Norway has nominally been far greater.

**Net immigration increasing**

Developments in Denmark deviate from the other Nordic countries, where the net immigration for all the countries has increased over the last 10 years.

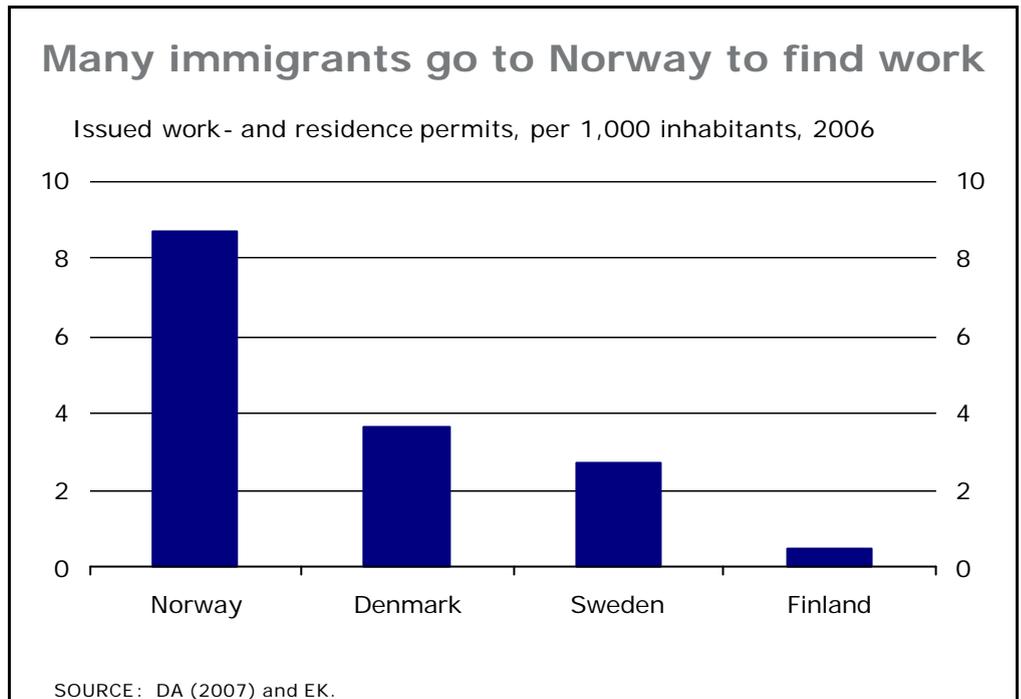
**More refugees and family reunification migrants in Sweden**

The increasing immigration to Sweden is due primarily to more refugees and family reunification immigrants, while immigration to Norway tends to be job-related.

**Many immigrants go to Norway to work**

The number of work permits issued is significantly higher in Norway than in Sweden and Denmark (data is unavailable for Finland and Iceland). In 2006, nearly 9 work permits per 1000 inhabitants were issued for Norway, as compared to only 3 per 1000 in Sweden and Denmark, see Figure 26.

Figure 26



In both Norway and Denmark, the number of work permits issued in the first eight months of 2007 increased by about 40% compared with the same period in 2006.

With greater prosperity, there is now an increasing demand for labour within those countries which have previously been the sources of migration to the Nordic countries. This will present a challenge to the Nordic countries' efforts to maintain and attract foreign workers from these countries.

In order to improve our ability to retain and attract foreign workers, it is essential to ensure that foreign workers are not disappointed with the specific experiences in the Nordic countries. In Norway, the association between expectations and the actual experiences of coming to Norway has been investigated.

Foreign workers in Norway had an expectation that the Norwegians were open towards foreigners, that it was possible to obtain information in English, that child care functioned well and that it was easy to obtain instruction in the Norwegian language. These expectations were not met; see Figure 27.

Figure 27

Immigrant's expectations and experiences		
	Expectations after having worked in Norway	
	Bad	Good
Expectations prior to arrival in Norway		
Negative	Tax rate Fees Living costs (advanced)	Basic living costs (basic) Combination work/free time Professional level
Positive	Openness toward foreigners Information in English Child care Language instruction	Physical environment (nature) Security The health system Recreational possibilities

SOURCE: Oxford Research (2007).

On other points, there is agreement between the foreign workers' expectations and their actual experiences. In addition, there are also areas where foreign workers had negative expectations but were positively surprised.

There are probably differences in expectations and experiences in the individual Nordic countries, but there are also probably certain similarities.

In Denmark, a project is being set up – the Firm-oriented Integration Project 3 – between the parties on the labour market and the municipalities, the intention of which is to retain and integrate foreign workers in Denmark.

### Measures taken in the individual countries

#### Denmark

#### More coming to Denmark to work

Along with the decline in unemployment, there has been an increasing recognition that the firms must have better possibilities to recruit workers abroad. Since 1974, the point of departure has been that it is not possible to come to Denmark to work. For many immigrants, the starting point was for many years that they were not allowed to work.

#### 'Job card' system

In 2002, a 'job-card' system was introduced which allowed persons with educational backgrounds such as engineering, IT, natural science, nurse or medical doctor to work in Denmark, if this was done under the normal wage and employment conditions. The system has since been expanded, with several more occupational categories, and entry to all types of employees who have an annual minimum wage of DKK 375,000.

#### Green Card

In addition, it has just been decided to introduce a general Green Card

system based on the Canadian model, i.e., entry on the basis of points which are awarded based on educational qualifications, job contract, language abilities, work experience, capacity to adapt, etc.

**Company residence permit**

It has also been agreed that a company residence permit will be introduced which allows entry into Denmark for employees already working in a firm represented in Denmark with at least 10 employees. It is a requirement that the foreign employee have special abilities or qualifications and the employee work in Denmark for innovative, project-related or educational reasons.

**Marketing of job opportunities in Denmark**

An enhanced effort will be made to market Denmark as a land of work opportunities. The Danish representations abroad will work actively to increase knowledge about Denmark as a country of work.

**Job Center at the Danish embassy in India**

As a pilot project, a 'Work-in-Denmark' Center will be established at the Danish embassy in India. The center will serve Danish companies who recruit workers in India and for Indians who would like to work in Denmark.

*Finland*

In 2007, there were about 6,200 pending resident permit applications, a 60% increase from the 3,900 applications in 2006. In 2007, about 5,300 permits were granted, up from the 2,900 granted in 2006.

**Work permit for a non-EU employee**

Foreign employees who are non-EU citizens need a residence permit (unofficial work permit) for an employed person if they intend to work in Finland. An alien who has entered the country with a visa or visa-free is not allowed to engage in remunerated employment in Finland. They must instead apply for a residence permit. A residence permit can be granted on the basis of either temporary work or work of a continuous nature.

In granting the permit, the needs of the labour market are taken into account. The aim of the residence permit system is to support the possibility of those who are on the labour market to gain employment. Thus, the availability of labour is also supported.

Granting a residence permit for an employed person requires that the alien's means of support be guaranteed. The employment office assesses both the labour policy requirements and the sufficiency of the means of support.

A residence permit for an employed person is usually granted for a certain occupation. The employee can change the place of employment within the occupational field for which he or she has been granted a residence permit.

Granting a permit takes 4-6 months, and this slow process is complicated by the fact that three different administrative bodies take part in the granting process. New legislation is being proposed which would reduce the waiting periods and eliminate the criterion of labour availability.

In 2006, the government passed the Government Migration Policy Programme, and measures to implement the programme are now in preparation. The goal is to formulate measures for a flexible, rapid permit

system, so that Finland can be promoted as an attractive country to work. More specific proposals, however, will not be ready until the end of 2008.

#### *Iceland*

#### **6,8 % of population are foreign citizens**

By the end of 2007, there were some 21,000 foreigners in Iceland, of which about 18,000 are working. The employment rate in Iceland is very high and unemployment nearly nonexistent. The downturn in Iceland's economy that began in late 2007 has not yet resulted in major changes in employment, though it can be expected that a number of foreigners will return to their home countries as the value of the krona has decreased.

Since 1 May 2006 all EEA citizens (excluding Romania and Bulgaria) can work in Iceland without work- or residence permits. Nationals of the European Economic Area can thus freely seek jobs in Iceland and have done so during recent years. Since the enlargement of the EU, it has become more complicated to obtain permissions for professionals coming from outside the EEA. Icelandic companies consider the red tape involved in recruiting non-EEA workers and obstacles to the entry of their spouses and children to be a growing problem. There is an increased demand for professionals, but the process of obtaining work and residence permits for them has been tedious and, Icelandic companies have not been competitive in this respect.

#### **New laws**

Two new law proposals for recruiting foreign labour were adopted by the parliament this spring. According to the new laws, a differentiation will be made between standard work permits and permits for work that requires special knowledge. In the case of a worker who possesses a university degree, is a skilled craftsman, or has finished art and technical education recognized in Iceland, a special permit will be issued which can later lead to an unlimited permit. Employees with some special knowledge based on long experience are included in this group. Companies hiring foreigners with university degrees can be granted an exemption from the general requirement of offering vacancies on the domestic or the European labour market. This is logical, as it can be assumed that the employer is offering the individual the job on the basis of the individual's knowledge and skills.

The Directorate of Immigration can give priority to residence permit applications from foreigners coming to Iceland to work or study. It can also issue fast-track residence permits for foreign employees, though only those coming to work for companies and institutions that have experience in applying for such permits and have shown that they are trustworthy. In such cases, the Directorate will be able to issue a permit on the basis of an employer's declaration that all requirements are met and that the firm take responsibility for delivering the necessary documents for the foreign national

#### **Fast track residence permits and simplified rules for EEA nationals**

Furthermore, since January 2008, rules on permits for EEA nationals have been simplified. Instead of having to apply for residence permits within three months of taking a job, they have only to inform the labour authorities about their residence and work. This means that the Directorate of Immigration has more time and resources to process permits for others. Instead of having to apply for residence permits, they have only to inform the labour authorities about their residence and work. This means that the Directorate of Immigration has more time and re-

sources to process permits for others.

With this new law, it can be expected that the time needed to obtain necessary permits for specialized workers from countries outside the EU will be reduced to only a few days or weeks in Iceland.

**A special effort in teaching Icelandic to foreign workers**

Teaching Icelandic to foreign workers took a large toll of the unions' education funds (funded by a percentage of the employee's wages by employers) in 2005 and 2006, when the number of foreign workers started to increase considerably. The social partners initiated talks with the government on this issue in October 2006, as they considered that this aspect of increased immigration should receive at least official co-funding. Consequently, the government decided to put more than two million euro's per year into financing specific courses (225 hours) of Icelandic for foreigners. The demand continues to be high. The individuals and the education funds continue to participate in the funding, but to a lesser degree than before. Teaching materials, content and methods, offers of further courses and increased quality control need to be developed in this field.

*Norway*

**Booming labour immigration**

In recent years labour immigration to Norway has increased significantly. On 1 January 2008, rule amendments were implemented aimed at making labour immigration easier.

**Simplifying the regulations**

Formerly, foreign workers from 10 of the newest EEA Member States had to have a settlement permit before they were permitted to work in Norway. The regulatory changes mean that they may start working in Norway as soon as they have submitted an application for settlement permit to the police, provided that all the required information is included, and that all necessary enclosures are submitted with the application.

Skilled workers/specialists from countries outside the European Economic Area staying in Norway on a visa may now apply for a work permit in Norway if the visa has a duration of three months or less.

A Service Centre for Foreign workers has also been established to meet the labour immigrants' needs. The Service Centre is staffed with persons from various public government agencies, providing both employers and employees a place where they can seek guidance and advice. The feedback from users has been very positive.

**Labour immigration as a supplement**

The labour immigrants have contributed to dampening the pressure tendencies in the Norwegian economy, thereby prolonging the strong economic upturn. Labour immigration is however not the only solution to Norway's demographical challenges, but is intended as a supplement to the national initiatives made through the NAV Reform. This is how the Government see it according to a White paper relating to labour immigration presented on 18 April 2008.

**Governmental proposals**

It shall be easier to recruit skilled workers from abroad. The Government proposes simplifying the regulations in relation to the regulatory framework governing recruitment of foreign labour from both inside and outside the European Economic Area. The foreign workers shall be permitted to start to work before a permit has been granted. At the same time, the employers will be given a greater responsibility for recruit-

ment.

Labour immigration for citizens of countries outside the European Economic Area shall still be regulated. For this category, the following is proposed:

- ? Employers who wish to employ workers from countries outside the European Economic Area shall be given a greater responsibility. On certain conditions the employers themselves may import foreign workers and let them start working before a permit from the Authorities has been granted, in which case the required control measures will be implemented post immigration. These conditions will be stipulated in cooperation with the social partners. This scheme shall only apply to highly qualified experts, key personnel skilled workers and employees hired by international companies.
- ? It shall be easier for skilled workers to orient themselves on employment opportunities in Norway. It is proposed that the current scheme of job seeker visa with a three month duration period may be extended to apply for up to six months.
- ? The Government is also currently considering rule simplification in the case of family immigration, among other things in relation to processing of applications concerning family reunification. Family members of students will be permitted to work full time whereas under the current scheme, they are only permitted to work part-time.
- ? The regulatory framework governing labour immigration will be simplified. It shall be made more easily accessible with few applicant categories, thereby making it easier for both job seekers and employers to determine the type of applications that are relevant for them. Together with rapid processing and good information, this will simplify recruitment of foreign workers significantly.

Restrictions with regard to the number of labour immigrants from third countries that are permitted to enter Norway shall still be imposed. The number of labour immigrants that are permitted entry shall be determined based on the labour market situation at the time in question. Until further notice, the annual quota of 5000 specialists/skilled workers will be upheld.

The Government proposes several measures to promote more and better coordinated information, as well as steps to ensure a more rapid processing of applications in cases pertaining to recruitment of foreign labour. Provided that the documentation is in order, the applicant should expect a processing time of maximum four weeks for work permits.

Labour immigrants and their families who choose to settle in Norway shall quickly be informed of their rights and duties, be given better opportunities to learn Norwegian and gain knowledge about the Norwegian society.

The Government's High North Strategy is followed up by new measures directed at improving the mobility of workers between Northern Norway and North-Western Russia. Among the proposals is a measure whose aim is to ensure that it is easier for Russians to obtain a temporary work permit.

<b>Workforce participation of primary importance</b>	A consequent adherence to the pro-workforce participation policy is vital to secure access to labour both long-term and short-term. The NHO supports the Government's analysis in the White paper, and holds the opinion that labour immigration must be regarded as a supplementary means used to solve temporary needs. A net labour immigration will have a positive impact on the Norwegian workforce, but will only yield minor positive effects for workforce participation and for the dependency burden in Norway. A high labour immigration is therefore not an alternative to high domestic workforce participation.
<b>Temporary needs temporarily solved</b>	Temporary and cyclically determined demand for labour must as much as possible be solved through the use of contracted labour and services import. This is the natural consequence which must be drawn from the Government's own analysis, but on this point the White paper is unclear and deficient.
<b>Active policy to attract highly skilled labour</b>	A more active policy is needed to attract highly competent labour. The proposal presented in the White paper represents a good start that needs to be followed up with measures among other things within the areas of research and education which serve to make Norway more attractive.
<b>Clear distinction on simplifying of rules</b>	<p>The proposals relating to rule simplification in cases regarding recruitment of foreign labour from third countries constitute an important follow-up of a suggestion from among others the NHO. In its final form, the new regulatory framework should make a clearer distinction between highly skilled workers/experts and skilled workers.</p> <p>Extended access to temporary work permits for Russians in Northern Norway contributes positively to labour supply and inter-personal contact in the High North. But it is important that it is not used as an excuse for the Government to rest on their laurels when it comes to implementing their pro-workforce participation policy.</p> <p><i>Sweden</i></p>
<b>More people need to come to Sweden to work</b>	<p>Since 1968, Sweden has had a system which made it impossible in principle for non-Scandinavian residents (and since 1994 for EU/EEA-citizens) to come to Sweden to work, other than temporarily.</p> <p>Only a few hundred third country nationals per year have been granted permanent residence for work reasons. The relatively extensive immigration into Sweden has, in the main, involved asylum seekers and relatives of holders of permanent residence permits.</p>
<b>Limited immigration from EU, even after enlargement</b>	<p>After accession to the EEA Agreement in 1994, the Swedish labour market was opened to citizens of the EU/EEA, but relatively few chose to come to Sweden. Despite the fact that Sweden was one of three EU15 countries not to introduce any transition regulations in connection with the enlargement in 2004, workforce immigration from the EU10 has also been at a relatively low level.</p> <p>The labour migration from EU/EAA was scarcely 9000 in 2007.</p>
<b>Sweden opens for third country citizens – 15 December 2008</b>	The government introduced a Bill on 29 April 2008 on new rules permitting workforce immigration from third countries. After completion of its passage through the Swedish Parliament in October, this will come into force on 15 December 2008.

Some of the main points in the proposal;

The employer can, on his own initiative, freely recruit outside the EU/EEA and himself determine the need. The current labour market test carried out by the Labour Market Board and the trade unions will cease. The Swedish Migration Board will, however, check that salary and general conditions are in line with Swedish practice. The principle of EU preference will be respected, and the condition for a work permit will be that the vacancy must first be reported to the Swedish Employment Service/Eures.

The permit period will be extended, and temporary permits will be issued for 24 + 24 months. After 48 months, the person is normally entitled to permanent residence.

In addition, it will be made clear that, under the existing rules, it is possible for third country nationals where visa is a precondition to apply for and be granted a three-month visa for entry to Sweden to seek work for certain professions where there is a shortage. The professions concerned are to be determined by the Swedish Public Employment Service jointly with the labour market parties.

Another change is that a person who has had his or her asylum application rejected, if he/she has a job with a certain duration (has worked for six months with the employer and has work for at least one year to come) may, within 14 days of the rejection, apply alternatively for and be granted permanent residence for labour market reasons.

During 2007 about 10 000 people from countries outside EU/EEA came to Sweden to work with temporary permits.

## 5.4 Integration of refugees and reunified family members

### Assessment

Refugees and those immigrating under reunification of family provisions are a significant labour reserve in many countries. In the Nordic countries, where these immigrants are numerous, there is a lower level of participation on the labour market among them than among the natives.

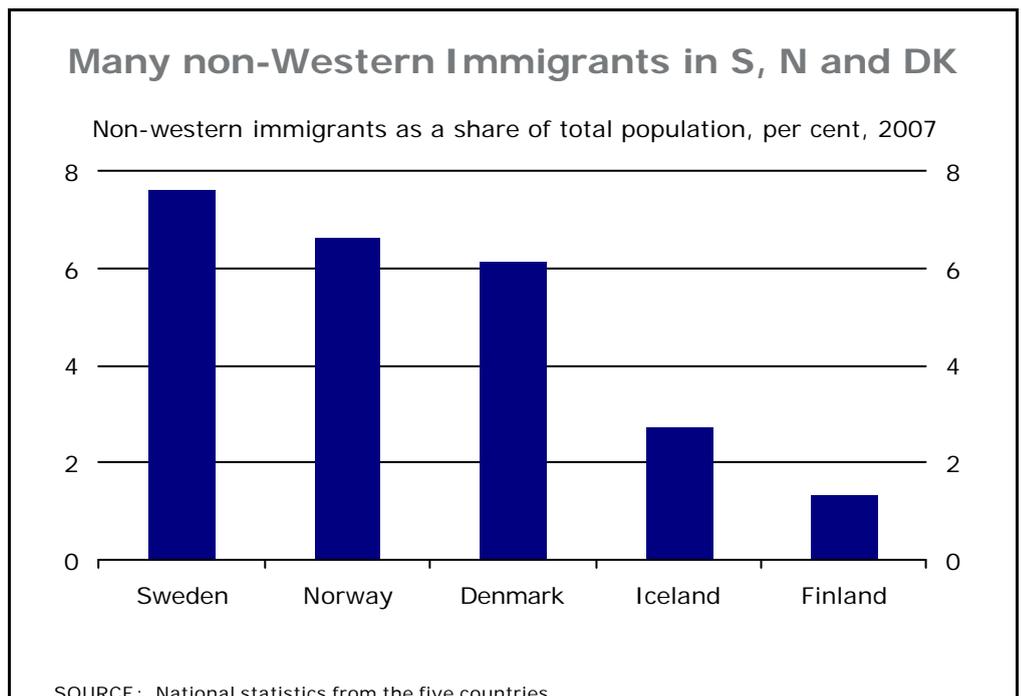
In both Denmark and Norway, introductory programs have been established with the purpose of integrating refugees and family reunification immigrants into the country, including also integration on the labour market.

Denmark has combined the rights and obligations to participate in the introductory program with clearer economic incentives to work.

Refugees and immigrants under family reunification provisions are a very important potential source of labour in Norway, Sweden and Denmark. The number of non-Western citizens is increasing in several of the Nordic countries, and the rate of employment for non-Western immigrants remains relatively low.

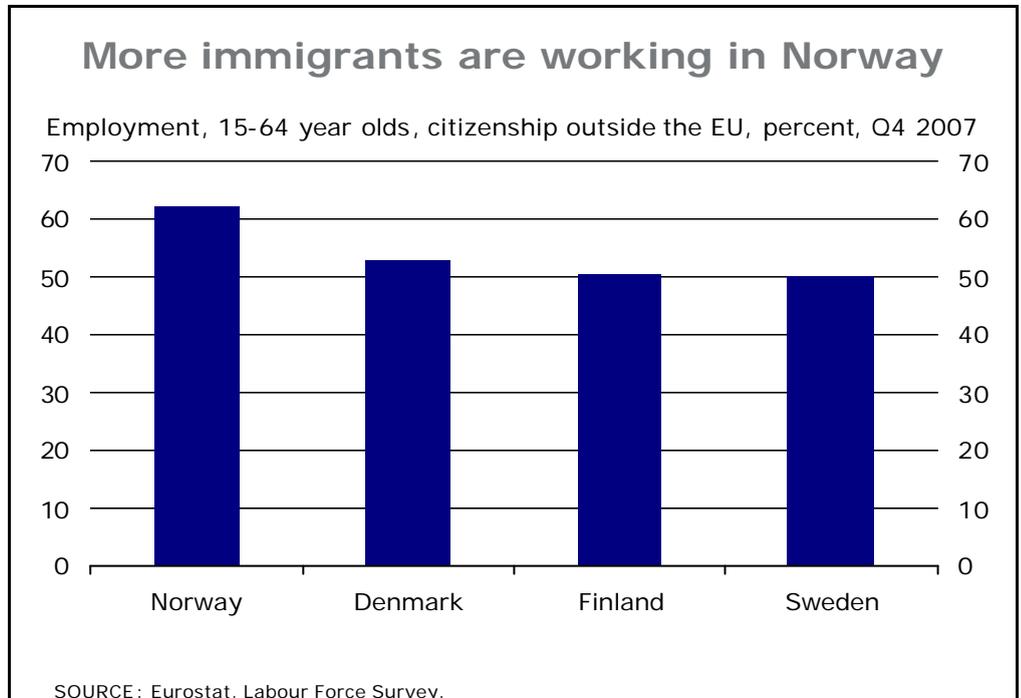
Sweden is that Nordic country with the largest proportion of non-Western immigrants, while Norway and Denmark have nearly equal proportions. In Sweden, 7.6% of the population is non-Western immigrants, while in Norway and Denmark, the proportion of non-Western immigrants in the population is 6%; see Figure 28.

Figure 28



The proportion of non-EU citizens who are employed is highest in Norway, where about 60% are working. In Denmark, Sweden and Finland, about 50% of their resident non-EU citizens are employed; see Figure 29.

Figure 29



It is thus Norway which has been best at getting immigrants from non-EU countries into the labour market.

### Measures taken by the individual countries

#### Denmark

#### Increase in immigration though the 1980-ties

From the start of the 1980s, there was an increase in the immigration of non-Western refugees and those coming under reunification of families, reaching a high point in 1995 during the war in the Balkans. At the same time, Danish society did not succeed in integrating immigrants especially well.

In 1999, a new integration law took effect. The law obligates municipalities to offer immigrants a three-year introductory program with instruction in Danish and social issues as well as job training/incentive measures enabling them to enter the labour market. At the same time, immigrants were obligated to participate in the introductory program and job activation activities.

In 2002 and the years that followed, the possibilities to immigrate to Denmark have been restricted, while efforts to integrate immigrants into society, including into the labour market, were strengthened.

Immigration was restricted using a variety of measures:

- ? Limiting the number of refugees so that only persons who have the right to residence under the international conventions could be recognized as refugees;
- ? Delaying permanent residence status so that it takes effect only after seven years' residence in Denmark; until that time, a refugee could be returned to their countries of origin if conditions permitted;
- ? Stricter demands on self-support; reunification with a spouse was conditioned on making a security deposit of DKK 50,000 for future support;
- ? The statutory right to family reunification was eliminated, both spouses had to be at least 24 years of age, and the connection to Denmark had to be greater than to another country before family reunification was granted.

**Offerings and demands**

Integration has focused on several offerings in combination with clear demands and increased economic incentives to take a job. This has occurred, for example, in the following ways:

- ? That only those persons who have resided in Denmark for seven of the last eight years have a right to full welfare payments;
- ? Child welfare payments to 15-17-year-olds only if they are in school or in a job with educational prospects;
- ? All 18-25-year-old welfare recipients who do not have a qualified education have the obligation to begin a relevant qualifying education;
- ? Permanent residence permit is conditioned on the willingness to participate in job activation and Danish language instruction if the immigrant does not have a job;
- ? Where both spouses are receiving welfare benefits, they will lose one of these benefits if one of the spouses has not had 300 hours' ordinary employment within the preceding two years.

Recent years have seen a significant growth in the rate of employment for non-Western immigrants. For example, the rate of employment for non-Western immigrants in the population rose from 47% in 2006 to 51% in 2007.

**Second generation immigrants' education is of great importance**

In the coming years, the greatest challenge will be to ensure that second generation immigrants become successfully integrated into Danish society. The number of 20-64-year-old second generation immigrants, which was 12,000 in 2005, will grow to 93,000 by 2020.

A good education will be an essential key to managing well in the Danish society. Hence, greater focus should be placed on the performance of second generation immigrants in the educational system. Regrettably, the experiences already indicate that immigrants do poorly in primary school, thus preventing many of them from going further in the educational system.

## *Finland*

Traditionally Finland has been an out-migration country. During the last years the annual net migration of foreign citizens has been about 10,000 migrants. The increase in foreigners living permanently in Finland has not in a higher degree led to an increase of the work force. The unemployment rate of the foreigners living permanently in Finland has remained high (24 per cent in 2006) and the employment rate low (46 % in 2005). The reason for the limited participation of the foreigners in the labour market in Finland is for one thing that the most common reason for moving to Finland is the family. Most of the foreigners living in Finland are mothers taking care of the children of the family and other groups than persons of working age. In 2006 about 122,000 foreigners lived permanently in Finland. About 30,000 asylum-seekers or refugees have entered into Finland.

### **The asylum seeker's right to work**

An asylum seeker may start work in Finland without a residence permit three months after submitting an asylum application. This right to work is granted to asylum seekers by law, and it is not subject to separate application.

## *Norway*

### **Decreased unemployment**

The good labour market in Norway has a positive impact for the immigrant population in that the unemployment is reduced and the employment frequency is increased. For the 4<sup>th</sup> quarter of 2007, the registered unemployment rate was 4.4 % (1.3 % for the population in total).

### **Family reunions**

A significant portion of the immigration to Norway is neither linked to asylum seekers nor to refugees, but to family reunions. There has recently been a debate relating to the conditions for family reunions in light of among other things, the debate on forced marriages.

The NHO recommended that an age limit of 24 years be set and that a requirement relating to personal ties to Norway be stipulated in connection with marriage immigration. These proposals were not followed up the Government which opted to go for other measures to combat forced marriages.

### **Clearer distinctions**

The NHO would like to establish a clearer distinction between different types of immigration. The humanitarian obligations that we have in relation to asylum seekers and refugees must be safeguarded, and these groups must as much as possible be integrated into the workforce, but this has nothing to do with labour immigration. Labour immigration is directed by the demand for labour on the Norwegian labour market. This approach has gained support from the Government in a recently published White paper on labour immigration policy.

### **The Introductory Programme**

The Introductory Programme and Language training for recently arrived immigrants between 18 and 55 years of age was established on 1 September 2003. The Introductory programme represents an important change in the Norwegian policy of integration, as it focuses on the resources of each individual immigrant who is then offered qualification tailor-made to fit the needs of the individual. The objective is among other things to achieve income security through active qualification measures rather than passive social security benefits.

The programme shall be adjusted to fit the needs of the individual and it may last for a period of up to two years. Its aim is to provide basic language skills in Norwegian and social studies and prepare the participants for workforce participation and/or further training and education. Persons participating in this programme are entitled to an introduction benefit stipulated to 2 times the Basic Amount (G) from the National Insurance Scheme on an annual basis (€ 17,728 from 1 May 2008). In the event of illegitimate absence, the amount granted will be reduced in accordance with the period(s) of absence.

#### **Evaluations**

According to evaluations, the Introductory Programme serves to contribute to integration, and the effect is particularly good for men. The Introductory Programme also has a positive impact when it comes to contributing to that more people obtain jobs more rapidly. The first reviews show that 6 in 10 participants move on to workforce participation or education. 22,000 persons participated in the language skills training and approximately one third of the participants took the final test, and that is far more than ever before.

#### **The Introductory Programme**

Together with Young Enterprise Norway the NHO has developed the educational programme Introductory Enterprise which is a practical element to the Introductory Programme in which a group of participants are being taught how to plan, establish, run, and finally close down their own mini company for educational purposes. Introductory Enterprise is meant to be an arena for learning Norwegian and for learning about the Norwegian society in practice. The participants gain experience relating to how to go about establishing your own business, and gain insight into the local private sector and their local government sector.

#### **New Chance**

The programme entitled New Chance is a trial project with paid qualification modelled on the Introductory Programme for Immigrants. It is intended for immigrants who after several years in Norway have yet to be firmly integrated into the labour force, and who therefore are dependent on welfare.

#### **NAV Intro**

Immigrants are a prioritised target group in the Norwegian labour market policy. The employment and Welfare Service has many measures on offer and a separate unit called NAV Intro, with specialised competence relating to immigrants and the labour market. NAV Intro, which also offers support and advice to other NAV offices, can be found in four major cities.

#### **Basic education for adults**

From 1 August 2002 adults who needed it were entitled to basic school education. It is the need for education which shall determine whether a person has a statutory right to education. This is also something which immigrants benefit from.

Adults born prior to 1978 that has not previously completed an upper secondary education are entitled to an assessment of their non-formal competence and to upper secondary education. It is the county municipalities which have a statutory duty to provide this.

#### **Non-formal competence**

An assessment of non-formal competence constitutes an important element of the qualification segment of the Introductory Programme. Vocational testing is a method which has proved to be well suited to assess a person's competence with regard to the execution of a given

profession. The method has primarily been developed for adult immigrants who lack documentation of their education and work experience, or in cases where the documentation presented are not directly comparable to Norwegian curricula.

### *Sweden*

The influx of refugees into Sweden accelerated in the early 1980s. It increased substantially with the wars in the Balkans. At the end of the 1980s and the beginning of the 1990s, Sweden was in a severe recession. As a result, large groups of refugees found it difficult to enter the labour market. A positive trend has, however, developed since the mid-1990s.

The number of immigrants in gainful employment has increased steadily. Unemployment among immigrants, on the other hand, has not fallen at the same rate and is still at a high level. This is largely due to the ineffective reception of newly-arrived refugees. The slow reception and introduction process leads to mass unemployment during the first years. As a rule, it takes a couple of years for an immigrant to look for work.

The mobility of newly-arrived refugees is very limited in practice. They find themselves in a catch 22 situation initially. They cannot move to another place since they do not have a job, but they can't get a job unless they move to another place. To have a reasonable chance of finding work, many newly-arrived immigrants choose to settle immediately in the metropolitan areas. Consequently, a majority of gainfully-employed immigrants work in the metropolitan regions, and almost half of them in Stockholm.

The immigrant labour force has played a crucial role in the economic growth of the metropolitan areas, and especially of Stockholm. Immigrants also play an important role in the Swedish labour market in general. Currently, 25% of doctors are immigrants. Almost 20% of university lecturers are also immigrants. One in ten graduate engineers are immigrants. Nursing and care, transport and other parts of the service sector are totally dependent on immigrants. Immigrants can, however, play an even greater role in the labour market. More of them must enter the labour market and at a much faster rate than today.

Swedish tuition for immigrants and validation of foreign qualifications are inadequate. Among refugees, there is a large group with a high level of education and advanced professional skills. They cannot express their expertise in Swedish, so it is not possible to utilise their skills. The lack of language tuition at a suitable level keeps people where they are and reduce mobility.

There are major benefits to society in general in accelerating the asylum process and enabling immigrants to enter the labour market quickly. A recently-published government report proposed that there should be a clearer division of responsibility among the various public agencies, as well as increased responsibility on the immigrants themselves.

## 5.5 Sickness absenteeism and disability pensions

### **Assessment**

The Nordic countries are all experiencing a massive exit from the labour market as a result of health-conditioned payments. 10 to 15 % of the population of working age is outside the labour market temporarily or permanently because of health problems.

Norway and Sweden both have especially high levels of sickness absenteeism, and many there receive disability pensions.

All the countries are working to reduce the health-related exit from the labour market

In Norway, it has been decided to establish 'a door' to the labour and welfare systems. This has also been done in Denmark, though without generating any significant results.

The dialogue between employees and firms has played a great role in Norway. From a situation where absenteeism has been seen as a private case for the individual, it has become a gateway toward dialogue and cooperation between managers and employees. Similar considerations play a great role in current political thinking in Denmark.

Iceland has established a sickness and disability pension fund which will focus on the possibilities for continuing to work.

In Sweden, new sickness insurance rules have been introduced which entail time limits of 3, 6, and 12 months, where continued right to sick leave benefits requires that the individual not only be ill in relation to their existing job, but, respectively, other jobs in the firm, or other jobs on the labour market. After 12 months of absenteeism, compensation is reduced from 80% to 75% of the former salary.

In Finland there have been several national programmes to promote the attractiveness of working life. The objective of the national programmes is to maintain and promote the attractiveness of work and working life. There are programmes for well-being at work and extending working life. For example Veto Programme continued the projects that have been developing Finnish working life, like the National Programme for Ageing Workers and the National Well-being at Work Programme. Veto started in 2003 and continued until 2007.

Absenteeism due to sickness is often the first step toward leaving the labour market, and thereby also a source of long-term loss of work force. Even though an employee is reported healthy after a period of sickness, the sick leave nevertheless has extensive consequences for the firms in the form of reduced production and higher economic costs.

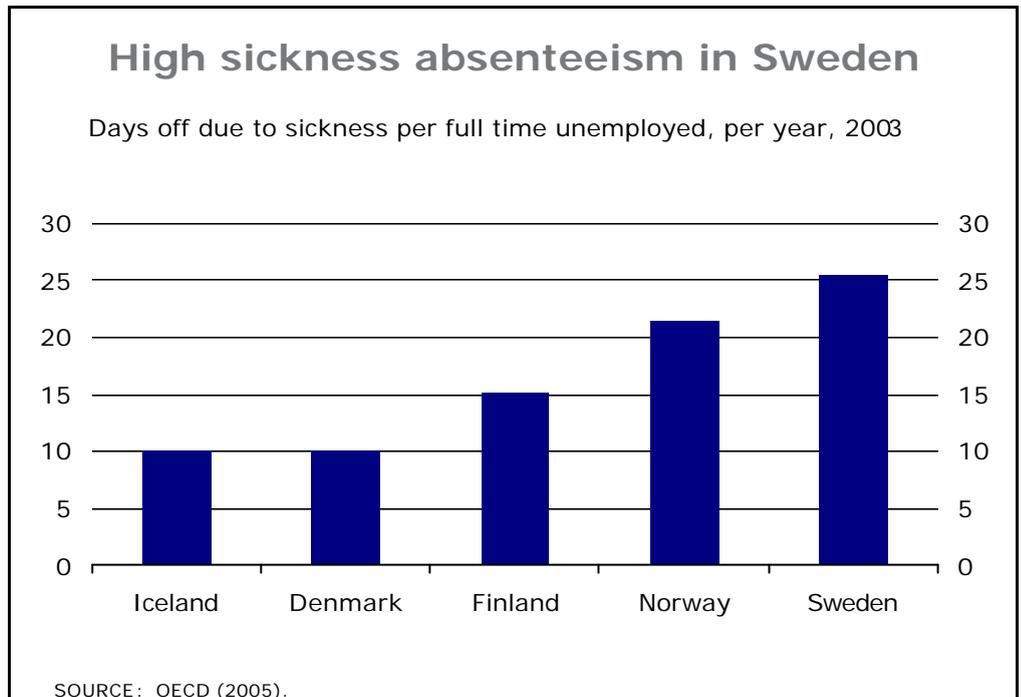
Sick workers who never return to employment often end up on disability pensions, and it is typical for the remainder of their working life. Even though disability pensions do not have the same direct economic consequences for the firms as absenteeism, the derivative consequences are extensive. In several of the Nordic countries, as much as 10% of the population of working age is receiving disability benefits.

## The health factor

With unemployment having obtained less importance, the health-conditioned exit from the labour market is the most important cause for the decline in the labour force in the Nordic countries.

Absenteeism is significantly higher in Sweden and Norway than in the other Nordic countries, as well as the OECD as a whole. Absenteeism in Sweden in 2004 was 25 days per full-time worker, versus only 9 days in Iceland and Denmark; see Figure 30.

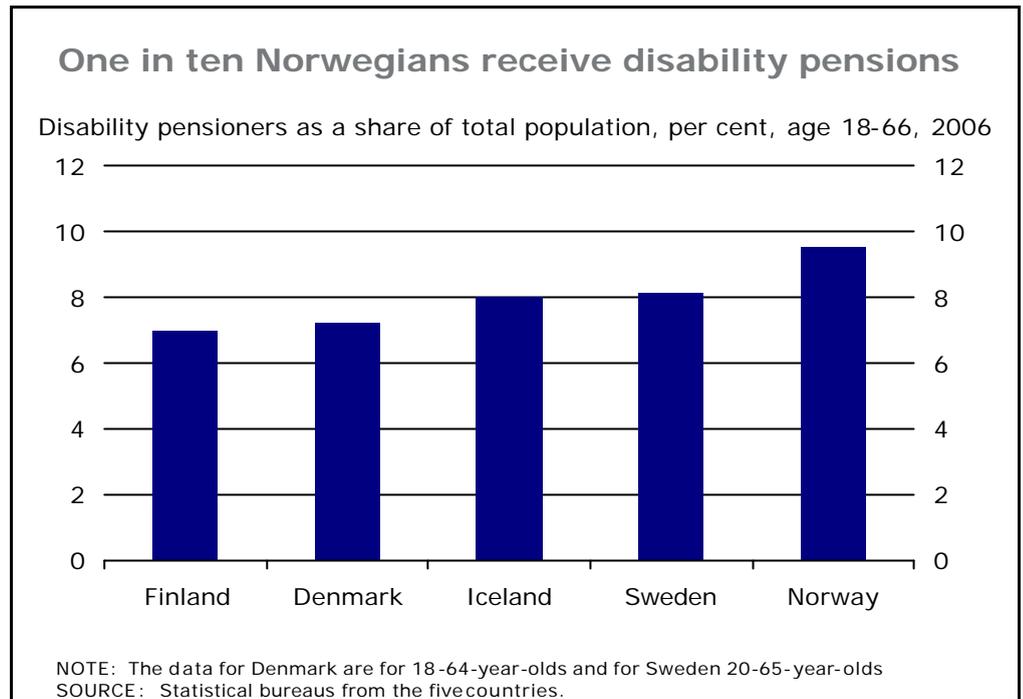
Figure 30



The high rate of absenteeism in Sweden compared to Denmark and Iceland is due to the high level of compensation provided by the Swedish sick leave system, with 80% of salary for an unlimited period of time. In Norway, sick leave is paid as 100% of salary for up to one year. In Norway, the employers' financial responsibility is also far less than in Denmark.

6 to 10 % of the population of working age receives disability pensions in the Nordic countries. Especially in Norway, a large proportion of the 16-66-year-olds in the population receives disability pensions; see Figure 31.

Figure 31



### Measures in the individual countries

#### Denmark

#### Increasing absenteeism

Absenteeism due to illness in Denmark has increased in recent years. This is due, among other things, to the increasing employment, but also to several changes in the law.

Absenteeism is significantly higher for workers in the public sector than those in the private sector. If absenteeism in the public sector were at the same level as in the private sector, the total absenteeism would be 12% less, or the equivalent of 15,000 persons. In addition, absenteeism is also especially high for those who are unemployed.

#### The Government: absenteeism must be reduced by 20%.

In 2007, the government has made it a goal to reduce absenteeism by 20%. As a result, an interministerial committee is working on a plan of action which will be published in June 2008.

From July 2008, the employer period has been extended from 15 to 21 days. After this, the firms can receive refunds from the municipalities. The individual's payments during periods of illness depend on legislation and the union agreements. Functionaries have the right to full salary during illness. Workers are covered by union agreements about wages during illness. Most workers have the right to full wages for nine weeks.

#### New disability pensions in 2003

Different types of disability pension which had been calculated on the basis of partial loss of work capacity were eliminated, so that there is now only a single type of disability pension, where the payment corresponds to the highest level of unemployment compensation. In addition, the intention was to reduce the number of people receiving disability pensions by creating a new type of publicly subsidized part-time job for persons with reduced work capacity, known as 'flexjobs'. Today there are 50,000 such flexible jobs, yet the number of disability pensioners has not declined significantly. That there has not been success

in reducing the number of disability pensioners is due to the fact that more people obtain disability pensions on the basis of mental illness, that more youth are accorded disability pensions and that the municipalities commit errors in assessing disability pension requirements.

In 2008, the disability pension system will be discussed in parliament, and the government has already stated that there is a need to limit the number of disability pensions to youth and to those suffering temporary mental illness.

#### *Finland*

##### **Sick leave**

Employers are obliged to pay salary to an employee during a sick leave. Sick leave payments are based on employment contract legislation and collective agreements. The length of the employment contract influences the length of the period for which a salary is paid during a sick leave. According to the law, the employer pays salary for the first nine days that the employee is ill. From the tenth day, the employee receives a sickness benefit from the Sickness Insurance Fund. According to most collective agreements, the employer has to pay full salary for a period from 4 weeks up to 3 months. If, at the same time, the sick person receives a daily allowance from the Sickness Insurance Fund, the employer can receive a refund of sickness allowance or withhold the amount from the employee's salary.

##### **Sickness allowance**

The sickness allowance represents a compensation for income lost due to temporary incapacity for work. The allowance constitutes up to approximately 70% of the salary of the person insured. However, the compensation rate decreases with higher income. The allowance can be paid for a maximum period of 300 working days. It is co-financed by employers (73%) and employees (27%).

The client's rehabilitation needs and outlook must be assessed no later than 60 days after the sickness allowance has been paid. If rehabilitation is initiated and the client begins to receive a rehabilitation allowance, payment of the sickness allowance ends.

#### *Iceland*

##### **Increase in disability**

An alarming increase in disabilities has been emerging in Iceland during recent years. In 2006, disability and rehabilitation pensioners were more than 6% of all those aged 16-66 years. The number of new disability pensioners per year averaged 1300 in 2004-2006 while newcomers in the workforce were only 2000, not counting foreign workers.

Further analysis shows that the increase was due not only to physical and psychological illnesses but also to social problems and financial difficulties. The fact that those evaluated with 75% disability pension received a full pension, those with 50-74% a small one, while those with less than 49% disability received nothing was considered to be conducive to overvaluations of the degree of disability.

##### **Social partners agree upon a different approach**

The social partners in Iceland have recently been promoting a different approach. When negotiating the most recent collective labour agreement in February 2008, it was agreed, with the active support of the government, to begin to restructure the system.

##### **New sickness and**

A new sickness and disability insurance fund, financed by employers

**disability insurance fund**

and the government, is to be used for the new approach, where ability to work rather than disability will be determined. The patient will be offered help, guidance and active rehabilitation in an early and ongoing intervention intended to facilitate the employee's return to work. At the same time, the tax system will be revised so as to encourage rather than discourage employment and lifelong learning. The foundations of the system have thus been secured, but setting up the new sickness and disability fund and making it operational is still underway.

**Current system**

Employers in Iceland currently pay up to 180 days of sickness or accident leaves. The labour unions' sickness funds (financed by a percentage of wages paid by employers) then cover a minimum of 4-9 months sickness or accident leaves if there has been a contribution for the person for 6 months. Pensions funded by the state cover those who exhaust their rights in the labour unions' sickness funds and are not well enough to be able to work.

A recent survey based on 13.000 employees' shows that employees were sick an average of 8.8 days in 2007, equal to 3.9% of all working days. Sicknesses and accidents of more than 16 days duration amounted to 2.2% of all working days. Middle-aged and older employees are less sick than younger ones, while the younger (15-30 years old) are sick at twice the rate of older workers (31-35 and 35-65 years old). The younger workers are more often absent, but tend to be absent for shorter periods, whereas long-term illness increases with age. Women take sick leave more often than men in order to care for children, 68% versus 32%, but the men's share in this area is growing.

*Norway***Administrative changes**

Currently an extensive restructuring of the administration within the labour and welfare area is being conducted in Norway. The former Labour Directorate (including employment offices at municipal and county municipal level) and the National Insurance Administration as well as the municipal welfare offices are being merged into one, single unit called the Labour and Welfare Service – NAV. The new government body has approximately 14,000 employees. The merger of the local offices began in the autumn of 2006 and shall be implemented throughout the country by 2010. At the same time, a number of reforms have been adopted within several of the welfare schemes which the new government body administers.

**"One single door"**

The key objectives of the NAV Reform is to increase workforce participation and to get the number of persons on benefits down. Furthermore it has been an objective to make it simpler for the users to avail themselves of the services NAV offers, and to adjust these services to fit the needs of individual users. "One single door" has been one of the arguments used in favour of this restructuring. It has also been a stated goal to create a comprehensive and efficient labour and welfare service.

The Labour and Welfare Service shall contribute to the creation of an inclusive society, an inclusive workplace and a well-functioning labour market. The government body is among other things responsible for providing income security in cases relating to unemployment, maternity and delivery, illness and injury, disability and retirement pension.

**Absence due to illness**

Absence due to illness increased steadily from 2001 until the first quarter of 2004, when 8.2 % of the stipulated man-days were lost due to

illness. Towards the summer of 2005 however, the level decreased by 20 %. Throughout 2006 and 2007 there have been some minor changes in illness absence and the current level is approximately 6.9 %.

**The Sickness Benefit Scheme**

The Norwegian Sickness Benefit Scheme provided for in the National Insurance Scheme guarantees each individual employee full wage during illness for up to one year. The compensation granted is limited upwards to a maximum of 6 times the Basic Amount (G) stipulated by the National Insurance Scheme. (As of 1 May 2008 this constitutes € 53,184).

The employer is obligated to pay sickness benefit for the first 16 calendar days of the sickness absence period.

**The Green paper NOU 2000: 27**

The Sickness Benefit Scheme has been subject to several rounds of public debate in recent years. In 2000 a Green paper proposed a model in which both the employers and the employees should be given increased responsibility for co-financing illness absence. The trade unions however refused to agree to a model which no longer guaranteed full pay during illness absence. Their refusal received support from the political left in Norwegian politics.

**The Tripartite Agreement on a More Inclusive Workplace- the IW Agreement**

As an alternative to the proposal presented in the Green paper the social partners entered into an agreement with the Stoltenberg I Government on a more inclusive workplace called the IW Agreement on 3 October 2001. Its first term of agreement expired in 2005, but it was later extended to the end of 2009.

**Dialogue and early follow-up**

The intentions behind the IW Agreement has been to move the focus away from the GP and the social security office and into the workplace and to stimulate the dialogue between the employee and the employer in cases of illness absence by emphasising the employer's duty to follow-up employees that are absent from work due to illness, and by the introduction of a new obligation for the employee to enter into dialogue with his/her employer in cases of illness absence. From viewing illness absence as a private matter that only concerns the individual, it has now come to be seen as a gateway to dialogue and co-operation between the employer and the employee in cases of illness. It has also been important to implement measures at an early stage of the sickness leave period.

**Changes in the regulatory framework**

The IW Agreement has facilitated several changes in the regulatory framework relating to sick leave. The person on sick leave is now obligated to provide information to his/her employer and to the Labour and Welfare Service regarding his/her functional ability and to contribute to that appropriate facilitation measures and measures geared towards testing his/her capacity for work are being assessed and implemented. On 1 July 2004 the rules were amended so that the focus is on activity rather than passiveness. Among other things, the person on sick leave shall as early as possible attempt to get involved in work-related activities and a follow-up plan shall be made. On 1 March 2007 the regulatory framework was changed yet again by extending the deadline for follow-up plans and dialogue meetings.

The regulatory changes in 2004 and 2007 have resulted in changes to the sick leave form.

Self-reported sick-leave can be used for up to three calendar days at a time, and for up to 12 calendar days a year. For employees working in an enterprise that have joined the IW Agreement, self-reported sick leave may be used for 8 and 24 calendar days respectively. Extended access to self-reported sick leave has not lead to increased self-reported illness absence.

One element of the IW Agreement is the fact that the sickness benefit scheme cannot be altered unless all parties to the Agreement agree thereto. Still two governments have attempted to extend the employer's responsibility, the Bondevik II Government in 2005 and the Stoltenberg II Government in 2006. Following massive protest from the social partners, both proposals were dropped.

**Between sick and disabled**

There are currently three different schemes for the interim period between the sickness benefit period and the time of a possible disability pension is granted. These are: Occupational rehabilitation, Medical rehabilitation and Temporary Disability Benefit. Approximately 145,000 persons were on these benefit schemes by the end of 2007. The number has almost doubled since 2000. These three benefit schemes shall be merged into one single benefit whose proposed name is Work Capacity Clarification Benefit and the plan is for the new benefit to be implemented by 2009. The new scheme also includes the right and the duty to conduct work capacity assessments and to formulate an activity plan. The new scheme includes many of the positive elements of the daily cash benefit scheme.

The objective has been to emphasise rule simplification and to make it clear to the users what rights and obligations they have. The Labour and Welfare Service shall spend more resources on relevant occupational follow-up of each individual client and on tailor-making measures to fit individual needs than on determining which type of benefit the individual is qualified for. The change shall lead to closer and better follow-up of benefit recipients, and the follow-up should start during the sickness benefit period. The new benefit should provide good incentives for workforce participation.

**Work Capacity Clarification Benefit**

In order to qualify for work capacity clarification benefit, a person's capacity for work/earned income capacity must be reduced by a minimum of 50 % at the time when the benefit is granted. The key elements for assessing work capacity will be if the individual in question is capable of taking paid work, and the degree to which his/her health is weakened. The work capacity clarification benefit shall constitute 66 % of a person's former income corresponding to the current benefits. The minimum benefit granted shall be 1.97 % of the Basic Amount (G) stipulated in the National Insurance Scheme. As a main rule, the work capacity clarification benefit may be granted for a period of up to four years during which time individual follow-up dates shall be agreed upon. The scheme shall include reporting requirements for recipients.

**Qualification Benefit**

Persons with a significantly reduced work and income capacity or no or very limited benefits to live on in accordance with the National Insurance Act have often been forced to leave on municipal welfare. Now a new qualification programme with a built-in qualification benefit directed at this group has been established. The Scheme has many of the same elements as the Introductory Programme for Immigrants.

**A demanding task**

In cases where the regulatory framework is changed from rule based schemes towards more discretionary decision based schemes, this requires a more nuanced evaluation of each individual case. Individual discretion shall be applied to tailor-make the measures which the individual shall get in order to clarify his/her capacity for work. This means that great demands are being put on the individual case worker in the Labour and Welfare Service. At the same time the Labour and Welfare Service is set to undergo an extensive restructuring process. It is therefore important that the government body implements the required competence building to ensure that a real commitment towards increased workforce participation is pursued. In order to succeed it is important that measures be implemented as early as possible and that work capacity assessments are held up as a vital instrument used to identify measures which can help reintroduce people to the workforce.

**Disability Pension**

The calculation of disability pensions is closely linked to the calculation of old-age pensions. As Norway is currently implementing changes in the old-age pension scheme from 2010, this means that also the disability pension scheme must be changed. Close to 300,000 persons had disability pension by the end of 2007. This is 26 per cent more than in 1990 and 85 per cent more than in 1980.

**New Disability Pension**

In accordance with the draft proposal to a new disability pension scheme, the disability benefit shall be calculated as 66 % of a person's former wages and be taxed as salary. A person's former wages is defined as the average income for the three best of the last five years of paid work prior to the time a disability pension was granted. An upper limit has been set for the calculation of disability benefit as with other income replacement schemes, to 6 times the Basic Amount (G) as stipulated by the National insurance Service. (As of 1 May 2008 this constitutes €53,184. This means that the disability pension will be €35,101). The gross minimum benefit is increased to compensate for increased taxes.

It is as yet unclear what degree of disability is required in order to qualify for a disability pension. It has been proposed a degree of 33 %, but there are strong arguments in favour of upholding the current requirement of a degree of 50 % in a new scheme. The lower degree required, the higher the likelihood of misjudgement. If a too low degree of disability is required to qualify for a disability pension it is likely to draw an unnecessarily large amount of resources from the workforce, and influence people's opinion negatively as to whether or not it pays off to work part time.

*Sweden***Increased costs**

Since 1996, the cost of sickness insurance has increased sharply in Sweden. The number of people who receive permanent incapacity benefit, sickness and activity compensation amounts to just over 500,000. The cost of benefits paid out in connection with absence through illness totalled SEK 110 billion for 2006.

The influx to sickness insurance continued to increase up to 2006, and the number of long-term sick increased substantially. A large proportion of the long-term sick transferred from sick pay to sickness benefit. During the years 2003 and 2004, the number of new grants of sickness and activity compensation was high as a result of the high number of people

on long-term sick leave since the early 1990s. It is particularly serious that the average age for new awards of sickness compensation has fallen. Only a few people stop claiming sickness and activity compensation for reasons other than reaching the pensionable age of 65.

#### **Break in the trend**

There has been a break in the trend, and in the influx to sickness insurance. There are many explanations for the reduction in absence through illness, but particular mention can be made of the fact that the Swedish Social Insurance Agency began to take a more insurance-based approach to sickness insurance than it had before. The Swedish Social Insurance Agency now acts more like a "gatekeeper" than it did in the past.

The Swedish Social Insurance Agency's forecasts project that absence due to illness will fall sharply up until 2011. The Agency believes this is in part due to new rules for sickness insurance which the Swedish Parliament adopted at the beginning of June, the introduction of a new decision support for insurance medicine and the Agency's new organisation for dealing with illness which is now coming on stream.

#### **The rehabilitation chain**

The new sickness insurance regulations, the rehabilitation chain, means in brief that sickness insurance is provided with strict time limits which regulate when and how the insured's ability to work is to be assessed by the Swedish Social Insurance Agency. After 180 days sick leave, ability to work will be tested against the whole labour market. This means in practice that many insured people will not have a continued right to sickness benefit after six months' sick leave. The rules on employment protection are unchanged.

## 5.6 Pension and retirement

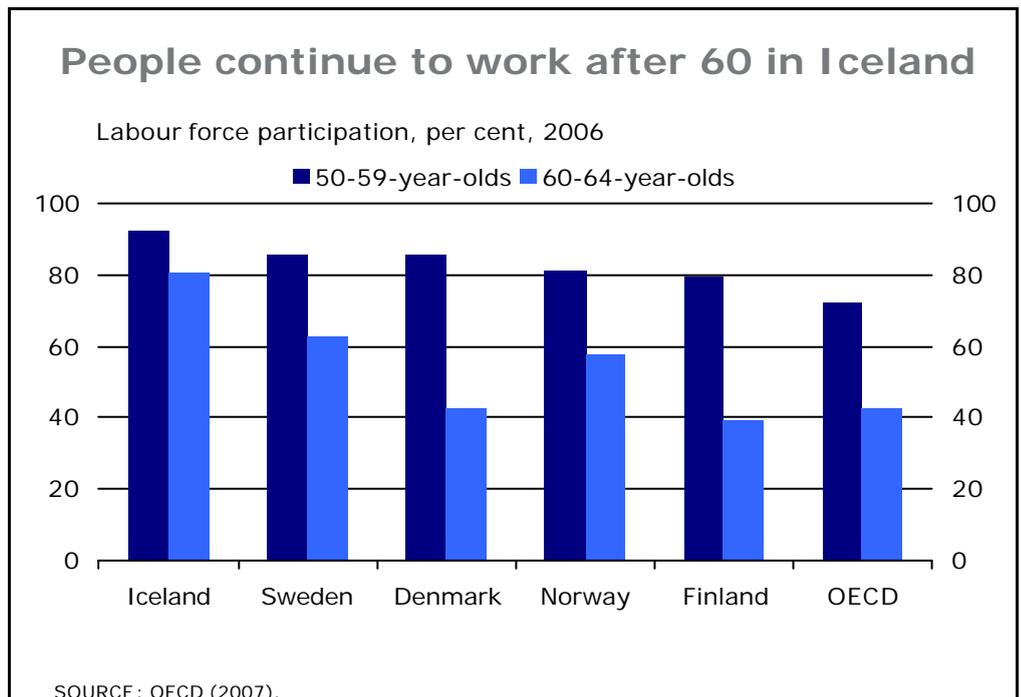
### Assessment

Employment rates for people over 50 years of age vary widely among the Nordic countries but are in most instances higher than the OECD average. Denmark, with a low employment rate for those over 60, has a system of early retirement pensions that encourages people to leave the labour market early. Employees in Finland also tend to leave the labour market very early. All the Nordic countries now have built into their pension systems some kind of economic incentives for employees to work longer.

Denmark and Norway have increased their ages of retirement as life expectancy has increased. Over the long term, these changes can have great significance.

All the Nordic countries have employment rates for 50-59-year-olds which are higher than the OECD average. Iceland has an especially high employment rate; see Figure 32.

Figure 32

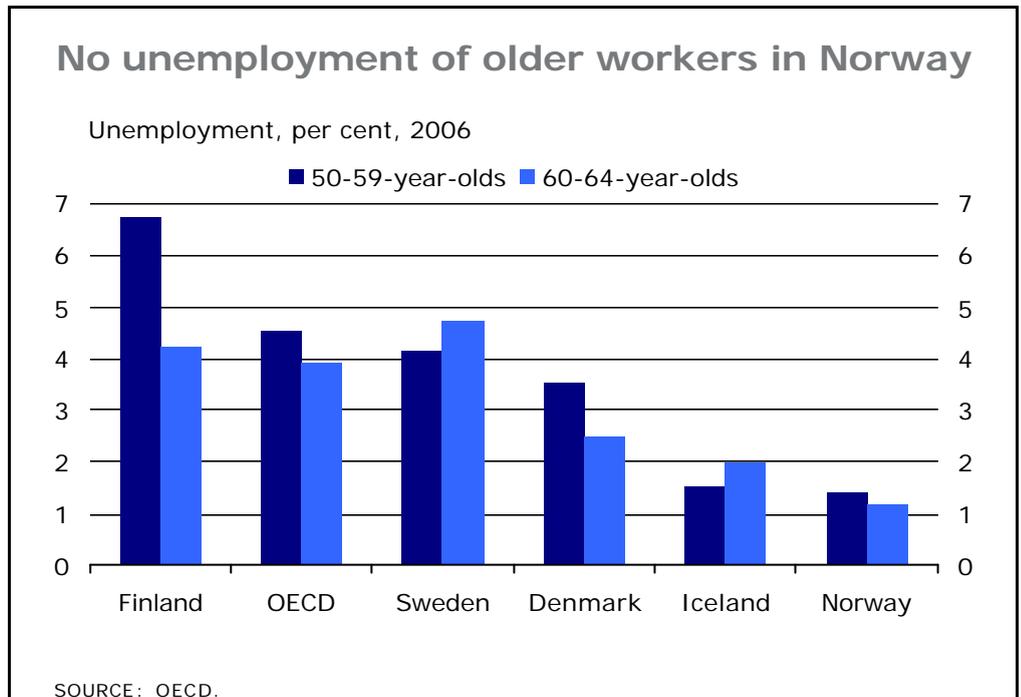


Among the 60-64-year-olds, there are very great differences among the Nordic countries. Denmark and Finland have experienced very large declines in employment rates for the 50-59 and 60-64-year-olds, while Iceland retains a high employment rate for the 60-64-year-olds. Sweden and Norway have also significantly higher employment rates for the 60-64-year-old age group than Denmark and Finland, which are only at the OECD average.

In Denmark, the low employment rates for those aged 60 and above can be explained by the generous voluntary early retirement scheme, which attracts many capable workers away from the labour market.

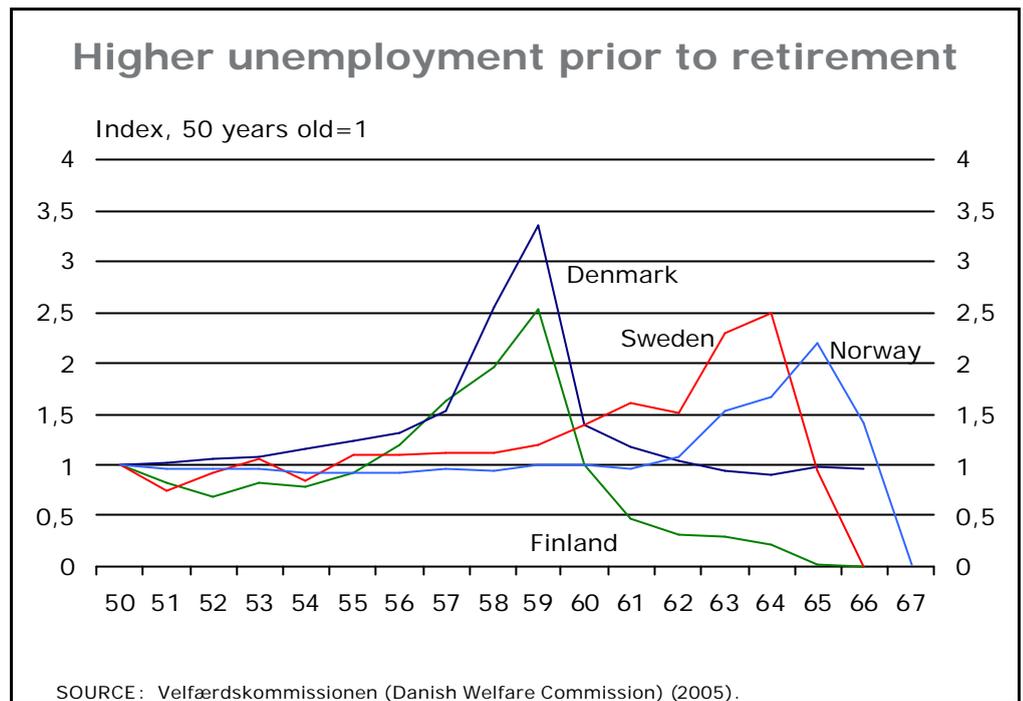
Unemployment among older workers is significantly higher in Finland than in the other Nordic countries. Generally speaking, unemployment among the elderly workers follows the general level of unemployment in the countries; see Figure 33.

Figure 33



In all the Nordic countries, unemployment among older workers increases significantly prior to the point where withdrawal from the labour market typically occurs. Sweden and Norway have succeeded in retaining a de facto retirement age of 65 years; while in Sweden it is about 61 years and in Denmark and Finland, effective retirement is down to about 60 years; see Figure 34.

Figure 34



In Denmark and Finland, there is a great potential for a larger work force by increasing the effective age of retirement.

### Measures in the individual countries

#### Denmark

The standard age of retirement in Denmark is 65 years old. Prior to 65, it is possible to exit the labour market from age 60 by the voluntary early retirement scheme.

#### Right to early retirement allowance

The right to early retirement allowance is given to members of an unemployment insurance fund who have paid an annual contribution to the system of €650 for a period of 30 years. The allowance for persons who take early retirement at the age of 60-61 is €1,850 per monthly. If one waits until age 62 and works at least 30 hours per week as a 60-61-year-old, the early retirement allowance increases to €2,030 per month. At the same time, private pensions will be calculated in a more advantageous way, and the individual is allowed to earn supplemental income if they decide to work from age 62 to age 65. For every 481 hours of work during this period, the individual receives a bonus payment of €1,460 at the conclusion of the early retirement period.

The individual must be fully available to the labour market in order to have the right to early retirement allowance. That is, the system is directed only towards those persons capable of working and hence, those being sought out by the labour market. The early retirement allowance thus constitutes a competitive distortion of the firms' efforts to retain older workers.

#### Early retirement and mandatory age of retirement increased by two years

In the summer of 2006, a broad political agreement was concluded which changed the voluntary early retirement scheme and pensions. From 2019 to 2022, the age of early retirement will gradually increase from 60 to 62 years of age. At the same time, the age of mandatory

retirement will increase from 65 to 67 years of age.

**Higher mandatory age of retirement with increasing life expectancy**

It is also agreed that the age of early retirement and pension will increase with the increasing life expectancy. This means that the age of early retirement will rise to 63 years old in 2025, 64 in 2030, and 65 in 2035. The mandatory age of retirement will rise concurrently.

*Finland*

**The pension reform**

Finland made a major reform in the beginning of the year 2005. Main aims of the reform were

- ? the renewed earnings-related pension rewards continued participation in working life
- ? average effective retirement age postponed by 2-3 years
- ? increased average life expectancy taken into account
- ? supporting ageing employees' ability to cope with their work
- ? pension provision no longer determined on the basis of the earnings from an individual employment contract, but on the earnings of the working career

The old-age pension starts between the ages of 63 and 68. The pension can be taken early, at the age of 62, or postponed beyond the age of 68. In case of illness prior to age 63, the employee may receive a disability pension or a rehabilitation benefit. A person shifting to part-time work can be entitled to a part-time pension at the age of 58 at the earliest. An unemployed person receives unemployment allowance until the old-age pension begins. Unemployed persons born before 1950, however, may qualify for an unemployment pension, providing certain conditions are met.

*Iceland*

**Most people take old-age pension from 65 to 70 years old**

In Iceland, 67 is the base year for old-age public pension, but pension funds do not all have the same rules. Pensions can be taken from age 62 and up to 72 in some pension funds, but the most common age of retirement ranges from 65 to 70 years old. The decision of when to retire affects the size of the pension and the amount paid out from private pension savings accounts. Generally, pensions are reduced by 7-8% for each year that the pension is claimed early, but increased by 8-9% for each year of deferral after 67 up to 70. The decision also affects payable benefits from the public pension scheme, which increases by 0.5% per each additional work month, with a ceiling of 30% at age 72.

**The old-age pension system in Iceland**

The old-age pension in Iceland consists of three parts:

1. Mandatory job-related pensions from pension funds (16-70) with defined contributions of a minimum of 12% of earnings, the employee paying 4% and the employer 8%. The law requires schemes to target a replacement rate of 56% with 40 years contribution, giving an accrual rate of 1.4% for each year of service. Past earnings are valorised in line with price inflation, supplemented by a 3.5 % interest rate. Job-related pension payments increase in line with consumer price inflation. With a higher life expectancy and a dramatic increase in the number of disabled people, the premium was raised in two steps from 10% of wages

to 12% in 2005 and 2007.

2. The (social security) public pension is a safety net that ensures a minimum pension for all people over 67 (up to 72, see above). The public system, with its specific benefits, has three components, including a basic payment and two income-tested schemes. This part of the Icelandic system is pay-as-you-go. With no other earnings, the public old age pension in Iceland now amounts to €1,184 before taxes.
3. Private pension accounts, job-related. These are free individual saving accounts, the employee pays 2-4% of income, to which the employer adds a 2% contribution.

**Pensions funds pay larger and larger share**

In 2006, the SA estimated the benefits from the public system and the pension funds. At that time, an average pension from the pension funds amounted to IKR 60, 000 per month. This will double over the next 25 years, reaching IKR 120,000 in 2030. The pension funds now pay out a higher amount in old-age pensions than does the state (20.4 billion versus 19.3 billion in 2004 from the social security) The number of pensioners aged 67+ will have doubled by 2045, reaching 19% of the population. The share of the pension funds in financing the pensions will grow rapidly. By 2040, it is estimated that the total amount paid by the pension funds will be five times what it is today, compared to just 50% growth in the public pensions.

*Norway*

**Retirement pension**

Old age pension in accordance with the Norwegian National Insurance Scheme has been granted from 67 years of age. As the life expectancy in Norway has increased, the pension scheme has been revised, among other things in relation to future sustainability. Through broad political pension settlements in 2005 and 2007, the Storting has adopted a new pension scheme. The new national Insurance Scheme shall apply from 2010 with transitional schemes up until 2025. The changes shall provide increased economic savings long-term and contribute to increased work-force participation. This implies that the existing early retirement scheme, the Contractual Pension Scheme – AFP – in which pensions currently are granted from 62-67 years of age, must be changed. The key points for the formation of a new contractual pension Scheme was stipulated during the 2008 Wage settlement between the trade union (LO) and the Confederation of Norwegian Enterprise (NHO) with the Government's help. The adopted solution serves to safeguard the key principles of the pension settlement adopted by the Storting.

**New retirement pension**

The new old age pension will lower the earliest retirement age from 67 to 62 years of age while at the same time stimulating to workforce participation since the pension increases with prolonged workforce participation – the longer you work, the higher retirement pension you get. In order for the change to be successful it is vital that more people choose to prolong their workforce participation. The scheme's inherent incentive structure and the introduction of the life expectancy adjustment serve to support this as the pension is significantly reduced for individuals who choose to leave the workforce early.

Key principles of the new old age pension scheme are:

It is possible to work as much as you like while claiming a pension without the pension being reduced, thereby giving people the option to

reduce their workforce participation gradually until retirement.

By postponing the retirement age the individual will increase his/her annual pension considerably. How large your pension will be, will depend on accrued pension rights and the time (age) at which you choose to retire. Your accrued pension earning will be divided on the expected number of years you have left to live based on your year of birth.

All income up to 7.1 G (€62,934) is a pensionable salary. And all years with income until 75 years of age shall count when your pension is calculated.

In order to ensure that the new old age pension is economically sustainable in the long run, an automatic life expectancy adjustment is introduced. This means that if the life expectancy for the general population increases (by one year) the pensionable earnings will have to be distributed over a greater number of years. The individual may counteract the effect of the life expectancy adjustment by choosing to work longer (0.8 years).

Accrued pension rights from the new National Insurance Scheme shall be regulated in accordance with the wage development. Pensions that are already being paid shall be adjusted in accordance with a presumed average of the price and wage development.

The new entitlement rules shall apply fully to persons born in 1963 or later. Persons born in 1953 or earlier shall follow the current entitlement rules. Persons born between 1954 and 1962 shall get their pensions calculated on the basis of proportionate components from both the old and the new system. The new entitlement rules shall apply fully to persons born in 1963 or later. Persons born in 1953 or earlier shall follow the current entitlement rules. Persons born between 1954 and 1962 shall get their pensions calculated on the basis of proportionate components from both the old and the new system.

#### **The Contractual Pension Scheme, AFP**

The new Contractual Pension shall be granted from 2010 as a life-long supplement to the flexible old-age pension granted by the National Insurance Scheme. It applies to all companies bound by a collective agreement. The NHO is working to ensure that this becomes a general scheme which shall apply to the entire workforce. The supplementary pension shall follow a neutral two-level model, i.e. a larger amount will be paid as pension from 62 years of age up until and including 66 years of age than for the years thereafter. Those who wish to wait before claiming their Contractual Pension may claim a higher amount later. It is also possible to claim Contractual Pension and work on the side without a pension reduction. In the old scheme a person would have to retire in order to be granted a contractual pension. In the new Contractual Pension Scheme this has been changed. Those who prolong their workforce participation will prolong their entitlement period, and thus be granted a larger supplementary pension.

In the new Contractual Pension Scheme entitlement rights to a contractual pension will be earned until 62 years of age. The contractual pension supplement will increase in accordance with the number of years the person in question has had an income, but will not increase further if the Contractual Pension is claimed after 70 years of age. The maximum entitlement basis is the same as the one stipulated in the new

National Insurance Scheme, i.e. 7.1 G.

A compensatory supplement is granted to persons born between 1948 and 1962 to ensure that these persons will not be worse off than they would have been if the old scheme still applied.

A gradual life expectancy adjustment is being implemented in the National Insurance Scheme for persons born prior to 1963 as these persons have less opportunity to compensate for increased life expectancy. For persons born in 1948, the life expectancy adjustment starts at 0.5.

**Occupational pension** All employees have a statutory right to an occupational pension. Enterprises that have not already established a performance based or defined contribution based pension schemes shall as of 1 July 2006 have established an obligatory occupational pension scheme. This change has resulted in that some 700,000 employees will be included in an occupational pension scheme to supplement their old age pension from the National Insurance Service.

### *Sweden*

There is no set retirement age in the old-age pension system. People decide for themselves when they want to retire. The income-related components of the old-age pension may be drawn from the beginning of the month in which the person turns 61, and there is no upper age limit. The longer the retiree waits before beginning to draw a pension, the higher the pension will be. The guarantee pension may be drawn no earlier than the month in which the retiree turns 65.

Sweden has traditionally a relatively high proportion of older people still in the labour market. The average retirement/pension age has also risen slightly in recent years to 61.3 years in 2007, partly as a result of changes in the entitlement rules in the pension system.

Statistics Sweden forecasts that the population, which now totals 9.2 million, should rise to 10.5 million by 2050. The largest increase will be in the age group 65 and over. Since people in the 60 year old age group today are more highly-educated than older generations, and, to a greater extent than formerly, their work structure has involved less physically demanding tasks, there is probably a potential for a growing supply of labour among older people.

An international comparison<sup>1</sup> places Sweden immediately after Iceland, Japan and the USA as regards the retirement age from the labour market.

On the other hand, unemployment among older people is relatively high. Partly, this is a consequence of the Employment Protection Act. If an older person loses his or her job, there is virtually no labour market.

The priority regulations in the Employment Protection Act mean that many workplaces have an age structure with fewer younger and many older staff.

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<sup>1</sup> Swedish Social Insurance Agency analysis 2006:11, data from ILO etc

## 5.7 Taxes

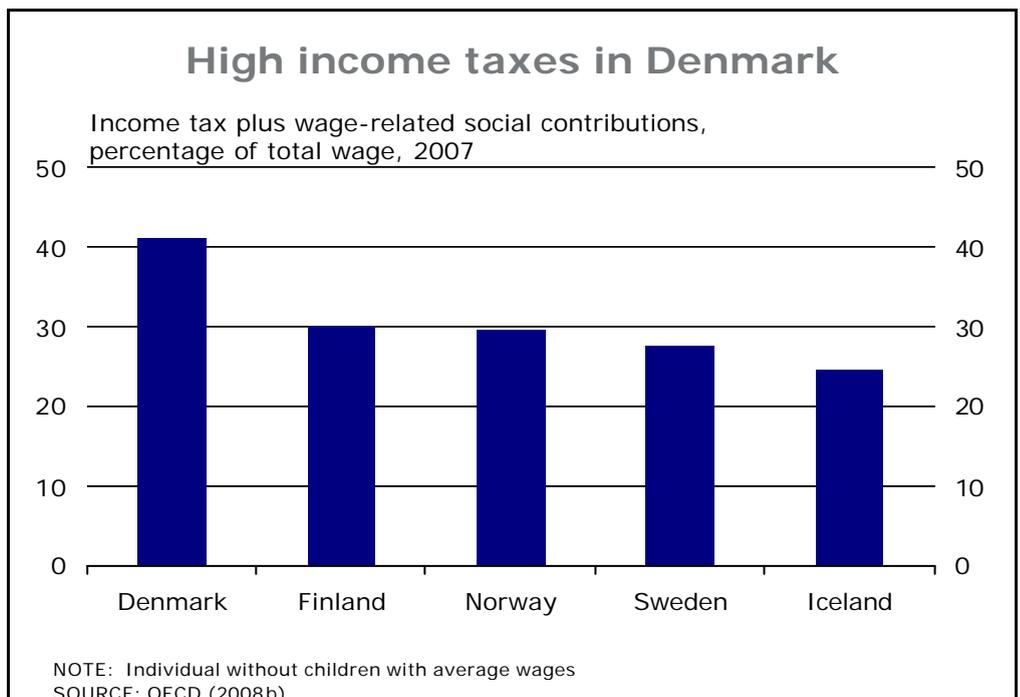
### Assessment

Wages and income taxes affect the ability to attract and maintain trained and competent employees from abroad. It must be kept in mind, however, that other factors, such as culture, security, climate and other general conditions are also very important. The Nordic countries are in a good position to attract and maintain people when wages are considered, but the tax systems contain a wide range of tax burdens.

Taxes have an effect on the employment rate, people's willingness to work overtime, or to take on added work or responsibility. Taxes can also influence people's choice of education and their willingness to change jobs. Taxes influence a country's ability to attract foreign employees. In countries where income taxes are high, companies have to pay higher salaries than in countries where income taxes are lower in order to compete effectively on the global labour market. Individuals take taxes into account when deciding whether to move to another country to work.

Average taxes on income are considerably higher in Denmark than in the other Nordic countries. In Denmark, the average tax rate on income for an individual without children and with an average wage is 41%. In the other Nordic countries, tax rates vary between 25% and 30%; see Figure 35.

Figure 35



Social contribution fees are highest in Sweden, where it is 32.42 %. In Finland it is 24.4; in Norway 14.4; in Iceland 5.34 and in Denmark there is no non-wage related social contribution fees. Total taxes as share of total labour costs are therefore highest in Sweden among Nordic countries.

Marginal taxes influence people when they decide whether they want to increase their income by working more, by taking on more responsibility or by pursuing further education.

Denmark's marginal tax rate of 63% is highest of the Nordic countries, followed by Sweden with 56.5 %, with Iceland's marginal tax being only 34.3 %; see Figure 36.

Figure 36



**Low taxes contribute to more work in Iceland**

One of the causes for total working hours and employment rate being significantly higher in Iceland than in the rest of the Nordic countries is probably that wage taxes, and especially taxation on extra working hours, are significantly lower in Iceland than in the other Nordic countries

**Measures in the individual countries**

*Denmark*

**High marginal tax rates in Denmark**

The Danish income taxation system is well known for its high progressive taxes and for its very high marginal tax rates. The highest marginal tax in Denmark is the third highest in the OECD, exceeded only by Sweden and Belgium. The marginal tax for that portion of income exceeding DKK 365,000 is 63%. The marginal tax for middle level incomes, 49.2%, takes effect on all earnings over DKK 304,100. The rate for low wages is about 42-44%.

The greatest part of the state's income from the income taxes in Denmark stems from the non-progressive taxes (labour market contribution, municipal income tax, health contribution, minimum tax). Together, these taxes bring in about €49,000 million. The highest and middle-level marginal taxes, in contrast, contribute only €2,500 million and €1,300 million, respectively, or about three % of the total income from taxes and duties.

**45% of full-time employees pay the highest marginal tax rate**

In Denmark, the highest marginal tax rates affect incomes which are 3-5% higher than the taxable income for an average industrial worker. This bracket is placed significantly lower than for most other OECD countries. Hence, about 45% of the full-time wage earners in Denmark were subject to the highest marginal tax in 2007.

**One-third of taxpayers pay nearly two-thirds of the taxes**

The steep progression in the tax system also means that a relatively small portion of the population bears the greatest part of the tax burden. Hence, 30% of the highest incomes pay nearly two-thirds of the total income taxes.

The two most recent changes in the tax system have been directed toward the low- and middle-income groups in the form of a higher threshold on payment of middle-level marginal taxes and the introduction of an employment deduction. The government, however, has not been able to do anything about one of the greatest problems in the Danish personal taxation system: the high marginal tax rates for the highest incomes. The highest marginal tax rates have remained unchanged since the 1993 tax reform, when it was reduced over a five-year period by 5.3%.

**Need for a lower marginal tax rate**

With a marginal tax rate of 63%, a very large group of Danes has only a limited incentive to exert additional work effort. Similarly, the incentives to educate oneself are also limited. In addition, highly educated Danes increasingly moving abroad in order to pursue careers, and it is difficult to attract the most sought after specialist workers from abroad. The shortage of qualified labour increases the risk that firms will move their operations abroad, either partially or completely. Denmark would then lose important jobs and sources of knowledge. Eliminating the middle- and highest-level tax brackets, and thereby reducing the marginal tax, would make the Danish tax system more competitive and robust internationally.

*Finland*

Small variations in salaries and a severe individual income taxation in Finland favour families with two wage-earners. That is that there is an incentive for both spouses to be working. On the other hand, if two wage-earners are unemployed or not available to the labour market, the quite generous system of income transfers leads to a situation where it is not necessarily economical for one family member to accept work if the other member cannot be employed. If only one person is employed, the effective marginal tax rate may exceed 90 per cent.

Those persons in Finland receiving unemployment allowances suffer from effective marginal tax rates that are too high. In other words, there is often a considerable lack of incentive to accept a job with lower salary. The same problems are applicable to those seeking to supplement their income with extra work. In Finland, the system does not

offer incentives for only one employed family member to obtain additional income (OECD Employment Outlook, Boosting Jobs and Incomes, 2006).

### *Iceland*

Measured by wages, purchasing power and income tax, Iceland occupies an average position of competitiveness among the OECD countries as concerns attracting competent employees from abroad.

#### **Purchasing power**

Despite relatively high average wages, Iceland's high prices reduce the purchasing power to a level that is lower than could be expected. High prices seriously undermine the ability of Icelandic companies to attract competent foreign employees. While Iceland is in fourth place among 30 OECD countries in terms of average annual wages, it ranks 16th when the average wage of USD 36,000 per person is corrected for purchasing power. Purchasing power in Iceland is below the EU-15 average, but higher than the OECD average.

#### **Income tax**

Average income tax (for an individual without children) on average wages amounts to 24.4%. Among the OECD countries, 17 countries rank above Iceland and 12 below. The OECD also compares taxes on 'low incomes' and 'high incomes', defined, respectively, as 67% and 167% of average wages. Taxes on low income are 19.5% in Iceland ranking it 18th among the OECD countries, and 28.4% on high income the taxes.

#### **Purchasing power of wages after taxes**

For individuals, the purchasing power of wages after tax is the most important parameter. International comparisons show Iceland to be in 12th place, 4% higher than the EU-15 average and 11% higher than the OECD average, Norway is the only Nordic country that scores higher.

#### **Marginal taxes**

Marginal taxes in Iceland are the same for all wages 34.3%. Iceland is in 12th place in terms of low income (67% of average) 17th out of 30 in terms of average income and in 23rd place when comparing marginal taxes on high income (167% of average wages). Relatively low marginal taxes and high incomes enhance Iceland's competitiveness in attracting foreign workers.

### *Norway*

#### **Marginal tax rate**

A low marginal tax rate on labour income will stimulate supply of work. In Norway there is a general income deduction (called the minimum deduction) in taxable income of 36 % of income, with a ceiling of € 8,500. This implies that the marginal tax rate is reduced from 35.8 per cent to 25.7 per cent for income in a wide range up to about € 23,500.

This will induce some people to stay in the labour market with part time work, and some to have a bigger in stead of a smaller part time job. These are the groups in the labour market which normally are assumed to have the most elastic supply with regard to changes in net wages.

#### **Ceiling**

The ceiling should preferably be extended for labour income and not for pensions in order to stimulate work over pension. Already today the rate of deduction and the ceiling are smaller for pensions. Increases in the ceiling for the minimum deduction in labour income will, however, solely give an income effect for all wage earners above a certain income

(somewhere above € 23,500, depending on the increase in the ceiling) so the degree of change has to be weighed against the foregone tax income. It is better to increase the ceiling for the minimum deduction than to increase the so-called personal deduction which does not decrease the marginal tax rate apart from at very small incomes.

#### *Sweden*

### **High marginal tax rates in Sweden**

Sweden has a very high tax burden on earned income. The basis is a proportional municipal tax of an average of almost 32 %. On top of this, there is a progressive central government tax of 20 % on an annual income above SEK 330,000 (about EUR 35,000). For incomes in excess of SEK 490,000 (just over EUR 50,000), there is also a national defence tax of 5 %. This tax was introduced in 1995 as a temporary measure during the economic crisis, largely for redistributive reasons, but is still in place today.

When Sweden, as part of the tax reform of 1990-91, introduced a maximum marginal tax rate of 50 % – under the half-left principle – this was a relatively competitive rate internationally. Since then, the trend has been for many competitor countries to reduce their marginal tax rates. To give some examples, the top marginal rate in the USA, Great Britain and France is around 40 %, while rapidly-growing economies such as Ireland, Iceland and many Eastern European states have even lower marginal rates. With respect to the income thresholds at which the higher rates apply, Sweden is also uncompetitive from an international perspective. Among Sweden's Nordic neighbours, there have been ambitious cuts in marginal tax rates in both Norway and Finland, where the highest marginal tax rate is being or has already been reduced to less than 50 %.

### **Need for lower taxes**

The Confederation of Swedish Enterprise works towards a reduction in marginal tax rates. This can be done in a number of ways, such as by introducing a new central government tax regime with flatter taxes through lower tax rates and higher thresholds, or by other reductions in marginal tax rates.

The basic tax allowance is SEK 17,400-31,600 depending on income. Since it took office in 2006, the Coalition government has raised the allowance through an earned income tax allowance, which is profiled towards low and medium income earners. The earned income tax allowance provides an increase in the level of income from employment above which tax is paid from around SEK 17,000 per year to around SEK 37,000 per year. This is a distinct improvement, which brings Sweden closer to its competitors. The average income at which tax becomes payable is in the region of SEK 49,000 in EU member states.

The very high level of income tax also represents a clear disadvantage in the competition for people from other countries who may be considering working abroad for a period. The need for special arrangements for foreign workers, such as the 'expert tax', is also a clear signal that marginal tax rates must be reduced, especially on high incomes, both to attract skilled labour from abroad and to retain skilled labour in Sweden. This need is accentuated by the fact that the opportunities for Swedish students to study abroad have increased, particularly at university and higher education level.

## High social contribution fees in Sweden

The ability of employers to pay competitive salaries to highly-qualified staff is also undermined by the fact that employers' contribution of over 32 % of salary (i.e. almost 25 % of salary costs including employers' contribution) is charged on total income, even though the benefits systems do not pay income-related benefits above the ceiling of 7.5 basic amounts (approximately EUR 35,500 per year in 2008).

For a country such as Sweden, with the ambition to continue to operate high on the production chain, globalisation increases the necessity to have attractive conditions for skilled staff. The current high marginal tax rates on higher incomes impacts particularly badly on highly-qualified individuals, who have usually undergone expensive education.

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