

2019

A new model for flexibility and work life security



The Swedish labour market needs reforms

Employees on the Swedish labour market generally enjoy favourable terms of employment, a healthy work environment and typically run a low risk of unemployment. Safety nets exist in the form of unemployment insurance and the state has considerable resources at its disposal to implement labour market policy measures. In addition to state initiatives, there are employment transition funds set up on the basis of collective agreements (in the private sector TRR and TSL) and, in some cases, supplementary income insurance schemes. Companies' commitments under the said collective agreements are typically substantial and highly effective.

Conditions on the labour market are currently characterised by increasing competition, as more and more many businesses are becoming active on international markets. The structural changes stemming from technological development, digitalisation and globalisation are substantial, and the pace of change is accelerating.

Clear deficiencies exist in regulations that govern how the labour market functions in terms of, on the one hand, competitiveness,

growth, the supply of skills and adaptability; and on the other, employment security and skill development of the labour force. Existing labour market policy measures are ineffective and costly. Furthermore, parallel alternatives have emerged as a result.

Sweden's Employment Protection Act (LAS) undermines business competitiveness, limits companies' willingness and capacity to create new jobs and hence to hire and undermines the supply and development of skills. Fundamental reform of LAS is therefore a top priority for employers and employees.

A shift is required from seeming security in a particular employment to genuine security on the labour market as a whole. Businesses and employees must be highly adept at adapting and adjusting, for example in the wake of changes caused by digitalisation. It is also important for employees and employers that there are ample opportunities to regularly update and improve skills, as well as to change careers and to work throughout long working lives.

A new model for flexibility and work life security


A new model for flexibility and work life security must be designed to simultaneously meet employers' needs for flexibility and adaptability, and individuals' needs for security.


The model should contribute to:


- improvements in the supply of skills to businesses and their ability to readjust,
- employees feeling secure in their working lives because finding new jobs is easy,
- improvements in the conditions for job creations,
- greater mobility on a more inclusive labour market, and
- excellent opportunities for individuals to maintain their skill sets and employability at high levels.


The elements of this model are based on the rules governing employment and the public unemployment insurance, the role of the Swedish Public Employment Service, the Swedish employment transitions funds and opportunities for skills development.


Model for flexibility and work life security

 A comprehensive reform of the Swedish Employment Protection Act (LAS)

 An unemployment insurance covering more people and providing better protection

 A specialised public employment service focusing on exercising public authority and efficiency

 Efficient schemes for employment transition

 Improved conditions for skills development



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A shift is required from seeming security in a particular employment to genuine security on the labour market as a whole

The model is based on five elements



1.

A comprehensive reform of the Swedish Employment Protection Act (LAS)

Less restrictions on terminations of employment contracts

A comprehensive reform of the Swedish Employment Protection Act (LAS) is necessary, resulting in less restrictions on terminations of employment contracts. Such changes would see the need for rules on order of selection, duty of transferral and right to re-employment automatically fall away.

Protection against unfair dismissal would still be provided by existing rules prohibiting dismissals for reasons specified in legislation other than LAS (e.g. the Co-Determination Act, the Act on Trade Union Representatives in the Workplace, the Discrimination Act, the Parental Leave Act etc.). The protection afforded by the aforementioned legislation corresponds to a very significant degree to the protection proscribed by LAS at the time of its conception in 1974 and the revision in 1982.

Financial terms in the event of termination

The longer a person is employed, the greater the mutual duty of loyalty existing between the employer and the employee. Accordingly, an international consensus has formed around the idea that it should cost employers more to lay off employees with greater lengths of service, compared to those having worked for shorter periods. This means that employers need to consider on business grounds, how, for instance, in the event of a shortage of work, the redundancies are to be distributed amongst the employees. Among other factors, employers need to consider whether skills development is a more favourable economic alternative than making an older employee redundant. A variety of models exist for financial compensation and in our judgment, a reasonable balance between a notice period and a type of severance pay (transition compensation) would be the most effective alternative.

In line with existing rules on summary dismissals, in the event of very serious violations of the employment contract, the employment should be subject to immediate termination without compensation.

Continued need for fixed-term employment contracts

Following an overhaul of LAS in the ways outlined above, the need for businesses to hire on fixed-term contracts would diminish. Even so, the possibility to use fixed-term contracts would have to remain in order to cater to situations where fixed-term arrangements are more appropriate.

The need for transitional rules

Transitional rules would greatly facilitate a far-reaching reform of LAS. A point of departure could be exempting existing employment contracts from the new rules. Employment contracts concluded prior to the entry into force would in such a set-up be subject to the pre-existing regulatory requirements.

Arbitration

Consideration should be given to whether the application of the rules on employment protection to companies bound by collective agreement should be reviewed by a joint arbitration board set up by the Confederation of Swedish Enterprise, the Council for Negotiation and Co-operation (PTK) and the Swedish Trade Union Confederation (LO).



2.

An unemployment insurance covering more people and providing better protection

The current Swedish unemployment insurance consist of two parts: a basic, universal insurance and a voluntary income insurance. In July 2018, the number of people paying into the voluntary schemes (A-kassa, managed by various frequently profession-based unemployment funds) amounted to 3.6 million, out of a total workforce of approximately 5.4 million, i.e. around two thirds.

Thus, the remaining 1.8 million are only covered by the basic insurance in the event of unemployment. Still other data show that the proportion of the unemployed covered by the unemployment insurance is markedly lower and decreasing over time. In 2016, fewer than four in ten people in unemployment received financial support from unemployment insurance schemes.

Furthermore, major shortcomings exist in the management of the unemployment insurance. The Swedish Public Employment Service (AF) is supposed to check and inform the unemployment funds when they believe that a job seeker fails to comply with the rules to receive unemployment benefit. A review conducted by the Swedish Unemployment Insurance Board (IAF) shows that AF officers fail to notify the unemployment funds in a fifth of cases where officers believed there were grounds for job seekers to be investigated. Previously, there have also been signs of considerable variations in how different unemployment funds handle notifications sent by AF.

The structure of the unemployment insurance

The unemployment insurance should be compulsory also regarding the income insurance that is voluntary today. It is important to ensure that regulations are applied in the same way to all unemployed.

During a limited introductory period, it should be possible to increase the cap of the unemployment insurance, expressed as level of compensation compared to previous income, followed by a subsequent rapid decrease. Designed in this way, the unemployment insurance's role as a transition insurance would be reinforced, offering good income protection during a limited period. A steep reduction in payments provides strong incentives for the individual to rapidly return to work.

The unemployment insurance should be financed by a uniform employer contribution/self-employed contribution expressed as a percentage of the total wage sum.



A specialised public employment service focusing on exercising public authority and efficiency

Matching the skills of those out of work with the skills businesses need is crucial to the unemployment rate at any given time. The effectiveness with which job seekers are matched with employer vacancies also impacts unemployment.

Although AF is the government authority responsible for promoting the efficiency of matching job seekers with employers on the Swedish job market, currently only 1.5 per cent of all jobs are brokered by AF staff. The majority of the measures offered to unemployed have weak, or even negative effects. Companies use AF's services to an ever decreasing extent.

Private staffing agencies and the social partners' transition funds have taken over both matching and transitions. Furthermore, a parallel system has emerged on the basis of local municipalities' labour market initiatives, resulting in overall poor synergy outcomes.

There are several examples of public employment services in other countries offering different types of transparent systems for comparisons of results and methods. Germany, for instance, has succeeded in halving the cost of its labour market policies over two parliamentary terms. Today, the cost of German active labour market policies amounts to 0.63 per cent of GDP. The corresponding figure for Sweden is 1.27 per cent.

AF's organisation

AF's future task should instead encompass the exercise of public authority and control. Certain measures are to be carried out by external providers remunerated in accordance with a result-based model. The right measures are to target the right persons based on objective assessments. Employment support will be reduced, and inefficient measures phased out. Costs will be reduced, freeing up resources that can be used to fund training and transition, and reducing employer contributions.

4. Efficient insurance schemes for employment transition

The Confederation of Swedish Enterprise, PTK (white collar council for negotiation and cooperation) and LO (The Swedish Trade Union Federation) have entered into transition agreements aimed at addressing challenges related to transition affecting employees who have been made redundant. Close to two million employees are covered by these schemes. The transition agreements fulfil a key role in facilitating transition and contributing to security.

The work of the employment transition funds TRR and TSL is of a high quality and a very high proportion of those who are made redundant find employment again within six months. A smaller proportion of people made redundant start businesses or engage in long term education or training, but the vast majority obtain a new job. A very large proportion obtain a similar or more qualified job.

The assistance provided people made redundant is adjusted as required yet in general, it includes advice, training and, for people over 40, also severance benefit/severance pay. The severance benefit consists of a lump sum while the severance pay supplements the public unemployment insurance benefits. Furthermore, TRR and TSL are key partners for businesses and unions in the transition process.

Future design

The right to transition support can, if employment protection is reformed in the ways described above, be expanded to include employees on short-term contracts under certain conditions and employees that are unable to return to work due to illness. Transition support should be strengthened also in other ways. In this context, funding is crucial. A reform of AF would free up resources that could be used in the reform of LAS and transition support.

5.

Improved conditions for skills development

Continuous skills development is becoming increasingly important to ensure that employees' skill sets are relevant and up-to-date. The OECD has shown that Swedish employees enjoy a high degree of skills development in their existing jobs. Skills development can also occur during periods of transition when an individual has been made redundant and receives support from the transition funds.

What constitutes skills development is occasionally unclear. Naturally, external courses and training schemes constitute skills development. But the largest proportion of employee skills development consists of performing tasks included in a job. In many jobs, employees are presented with new situations in need of resolution, customers having new wishes or an employer investing in new software or new machines that the employees need to be able to operate. All this develops and broadens or deepens the employees' skill sets.

It is in the interests of employers and employees to ensure that the skills development necessary to perform existing tasks in a given role takes place. The need for skills development is dependent on the individual's pre-existing knowledge but also on the development occurring in specific sectors or occupations. This suggests that skills development must take place at company or sector level, where it can be adapted to operational requirements.

To strengthen businesses' incentives to invest in employee skill sets, the related costs should therefore be tax deductible. Conditions for skill development can be further improved with increased involvement from the social partners.

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