

Summary

Official Norwegian Reports NOU 2019: 7

Work and benefits

Measures to increase employment

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Translation of chapter 1 - Perspectives and
summary - from Norwegian. For information only.

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Chapter 1

Perspectives and summary

There is a broad consensus that high employment is one of the main objectives of economic policy. Norway was among the countries with the highest employment rates at the turn of the millennium. Since then, however, a decline of two percentage points in Norway combined with favourable developments in several other countries has lowered our position in the rankings. As high as 17 per cent of the prime-aged population (25-54 years) is not employed, four percentage points higher than in Sweden in 2017. Compared with other countries, a large portion of our population is on health-related benefits; 17 per cent in the 18-66 age group.

Weaker employment developments compared with neighbouring countries such as Sweden suggests that there is potential room for increased employment in Norway. Higher employment fosters economic growth and makes it easier for the social security system to meet challenges from structural change in the labour market and increasing life expectancy. Participation in working life helps people support themselves and realise their potential, and it is also a key instrument for reducing poverty.

Broad-based policies are needed to increase employment.

A favourable economic climate is crucial for improving employment. A well-functioning private sector and economic policies that focus on achieving and maintaining a high level of demand in the economy are essential ingredients.

Relevant and up-to-date skills are becoming increasingly important in the labour market. More people must complete upper secondary education, and better paths for entering the labour market must be developed for people who struggle in secondary school. We need to find ways to meet the learning needs of adults with weak basic skills.

A well-functioning system of social security benefits play a key role in providing economic security and prosperity. However, the social security system needs to be more oriented towards work, so that it promotes gainful employment rather than dependency on benefits. Both research and experience

show that typical health problems need not be a barrier to employment. On the contrary, being in work has a number of positive health effects, even for those with health problems.

A work-oriented approach requires change along several lines. For young people who are struggling in the labour market, health-related benefits offer higher benefits than other alternatives. This can impair opportunities for finding work. Increased use of The Qualification Programme or other suitable measures, along with harmonising the levels of certain benefits, will help many young people become better-equipped to find a job.

Many employees with long-term sickness absence move on to other health-related benefits and eventually drop out of the labour market. The sick pay benefit system needs to be reformed in order to limit sickness-related absence and increase employment, in part through increased use of partial sick leave. A longer maximum period for benefit receipt should be allowed in cases of partial sick leave, while the level of compensation for sick pay should be reduced somewhat from a certain point in the leave period. The employer's financial responsibility for sickness leave should, in part, be shifted from short-term to long-term absences.

Disability benefits should be reformed so that people on partial disability become more employable in the labour market. Health-adjusted pay should be introduced so employers pay an hourly wage adjusted for an expected reduction in productivity per hour. The disability benefit is then granted as compensation for reduced hourly wage, and also for reduced working hours, if relevant.

Follow-up of vulnerable groups in the labour market needs to be improved. NAV (The Norwegian Labour and Welfare Administration) should receive more resources so they are able to provide more intensive follow-up. NAV should place more emphasis on measures and programs that have proven to be effective, even if they cost more, and more concrete activity requirements should be put in place for various benefits within the current system.

Efforts aimed at improving the employment rates of older workers should be intensified, with emphasis on life-long learning and measures to boost demand for older workers. The upper age limit for retirement in the Working Environment Act should be reduced to 70 years. At the same time, working beyond the age limit with adjusted wage and working

conditions should be made easier, so that both parties can benefit from the employment relationship. All occupational-specific age limits should be reviewed with a view toward removing factors that discourage continued work for older workers.

1.1 How can employment be increased?

Norway's employment rate has been among the highest in the world for quite some time, but this is, in part, changing. While employment rates - in percentage of the working-age population - have increased in a number of other countries, the rate has declined somewhat in Norway. We still rank quite high compared with most other countries, but the percentage of the population employed in Norway is now clearly lower than in Sweden. This suggests that there is room for higher employment in Norway.

The expert group was assigned the task of proposing measures that will put more people to work and ensure that fewer exit working life on permanent benefits. We have also been tasked with recommending changes in social security and welfare benefits for the purpose of increasing employment rates.

A high employment level is crucial for prosperity. In the decades to come, an aging population will bring with it increased expenditures related to health, elderly care services and old-age pensions and place a strain on public finances. To ensure that our social security system is sustainable, more of the people who are currently outside of the labour market must find jobs, reducing the inflow to benefit schemes and pensions.

A number of preconditions must be in place in order to boost employment.

One key precondition is that the overall economy is doing well. A well-functioning and innovative private sector in which job creations outstrips job destruction is needed. The public sector also has to work well, and public finances must be solid. Economic policy must ensure a high and stable level of overall demand in the economy. This is key to achieving high employment, and a precondition for the effectiveness of other measures.

Relevant and up-to-date skills are important for employment. Many people have withdrawn from the labour force due to weak or insufficient skills. The level of skill demanded in the labour market will grow, and this requires a stronger commitment to education and training. More people must complete upper secondary education, particularly with vocational skills. Many adults also need to improve their basic skills as well as update and improve their occupational qualifications.

For many people, health problems appear to be the main reason why they are not working. Occupational health and safety measures are crucial for preventing and limiting strains and injuries. If illness or injury does occur, it is important that the health sector provides effective treatment and follow-up, so that the sick and injured can regain the ability to work.

Well-functioning social security benefits are important for economic security and prosperity. Those who cannot work due to health problems must be provided for. However, there is no clear line between those who can and those who cannot work. Many types of health issues are compatible with work and in some cases, work can even be beneficial for health. The social security system and associated follow-up of benefit recipients must therefore be designed to facilitate work. We must free ourselves from the notion that work is for the healthy. In many cases, a person can do a good job in spite of illness or disability.

The level of benefits in the social security system also influences employment. As a general rule, stricter and less generous social security benefits provide stronger incentives to work. This will lead to more people in work, but benefits for social security recipients will be lower. The choice between strictness and generosity poses difficult dilemmas for politicians and other decision-makers, because it is necessary to weigh considerations of social welfare and the distribution of income against employment and fiscal policy. Our mandate is to propose measures to increase employment. In line with this, we want to point out some areas where employment opportunities can be improved through a moderate reduction in benefit generosity.

A work-oriented social security system

A key element in a strategy for higher employment is a more work-oriented social security system in which fewer people are passive benefit recipients. A more work-oriented social security system entails that schemes and measures must be designed to strengthen opportunities for work. It is also important to ensure that each person receives the help or assistance that is best suited for improving his or her future employment. Among other things, this means a certain degree of harmonisation of the compensation levels for different benefits in order to avoid a situation where compensation levels are highest for benefits that impair future employment prospects. Such harmonisation will free up economic resources that can be used to promote skills improvement and better follow-up, which will further reinforce employment prospects.

Measures for young people with health issues are one area of interest. Many young people who struggle in the labour market have multiple challenges where health may be just one part of the picture. For this group, receiving health-related benefits could lead to excessive focus on the health-related limitations, which could potentially impair the person's chances to get a job. Work Assessment Allowance (temporary disability benefits) will often be the only available or financially most favourable benefit for the short term. In many cases, however, The Qualification Programme or other work-related measures and follow-up would be better suited to the needs of these young people, by improving skills and thereby strengthening job opportunities in the longer term.

As regards absence due to sickness, research shows that partial sick leave contributes to reduced absence and, in some cases, a more rapid return to regular work. Nevertheless, at the end of 2017, only about one-quarter of the absence due to sickness was partial sick leave. This speaks in favour of reforming the sickness benefit system so that both employers and employees have stronger economic incentives to use partial sick leave. Employer follow-up is also important, not least when it comes to long-term sickness leave. Therefore, employers should be given greater financial responsibility for long-term absence balanced by less responsibility for short-term absence.

Better follow-up and more use of labour market measures

Use of active labour market programmes is lower in Norway than in several of our neighbouring countries. Norwegian and international studies show that the effectiveness of active labour market programmes is variable, but also that some measures are usually effective. Therefore, we propose that the use of active labour market measures be increased, and that NAV, to a greater degree, should offer the programmes that have demonstrated good effect, such as wage subsidies to employers, even though they may cost more.

A more work-oriented benefit system requires better follow-up measures for those who cannot find work. Therefore, increased resources should be allocated to labour market measures and to a combination of occupational measures and medical treatment for people who have health challenges. Swedish and Danish experiences indicate that more intensive follow-up with fewer users per caseworker can yield good results. NAV should receive sufficient resources to ensure closer follow-up than is the case today.

A lot of money is devoted to support, follow-up and labour market measures every year, both in the workplace and in NAV; yet knowledge about implementation and effects is still somewhat lacking. We propose a stronger commitment to research, including cost-benefit analyses of various types of measures. More emphasis should also be placed on disseminating research results and knowledge within NAV, so that case-workers in NAV can apply the measures that work best for various groups.

Increased demand for workers from vulnerable groups

In some cases, skills development, follow-up and better incentives will not be enough. Competition for jobs is often intense, and it can be difficult for those with weak skills and/or health problems to find work. Economic incentives to work have little effect if even highly motivated job seekers cannot find a job. Therefore, measures to increase demand for vulnerable groups in the labour market are also needed. This includes measures that improve how employers perceive vulnerable groups, so these groups can succeed when competing for jobs.

One prospective way to do this would be by allowing for increase wage inequality, with lower wages for the low-skilled. Lower wages in low-skilled jobs increase the number of such jobs, thereby increasing demand for low-skilled workers. However, greater wage inequality will also lead to greater income inequality and increased poverty. If wages become too low compared to social security benefits, this could further weaken incentives to take the jobs that pay the least and impair employment. In our opinion, increased wage inequality is not an appropriate way to increase employment.

However, for some groups, reduced wage costs can be an appropriate way to improve employment prospects. Several Norwegian studies show that wage subsidies can increase participants' job opportunities and thus contribute to higher employment. Many people who receive disability benefits still have some remaining capacity for work, but political goals of increasing the use of partial disability benefit have not yet been achieved. One reason for this is that partial disability benefits presume that the disabled person is able to compete in the labour market on an equal footing with healthy workers for the part of their time that they are healthy enough to work.

In our opinion, the regulatory framework for disability benefits should take into consideration the fact that, in many cases, people with health problems often have reduced productivity throughout working hours. In such cases, a health-adjusted wage, where disability benefits compensate for reduced hourly pay instead of or in addition to reduced working hours, can be a suitable measure that can make the disabled person more attractive to employers and thus contribute to better job opportunities. Other measures are also needed to secure and retain jobs for people on partial disability benefit, such as policies for managing disability in the workplace as well as help in finding a job in the public or private sector. This can be substantially easier if a health-adjusted salary reduces employers' wage costs when hiring people on partial disability benefits.

Labour immigration

Labour immigration provides a number of benefits for the economy by helping to meet the demand for labour, adding skills and reducing the mismatch of skills. On the other hand, a high level of labour immigration can also present a challenge for the Norwegian economic model and influence employment in the native population.

Labour immigration can, in particular, affect the employment opportunities for low-skilled workers. Norwegian employers can hire skilled workers from the EU/EEA-area without necessarily having to pay the high level of wages prevalent in Norway. Norwegian workers may have the advantage of language and culture, but those with weaker qualifications may still lose out in the competition for jobs. Immigrants will usually have lesser skills in Norwegian and lesser insight into Norwegian labour laws and regulations. This makes them even more vulnerable to competition from new immigrants. It is important for Norway in general to have a high level of employment for the people who live here, both those born in Norway and immigrants. Therefore, we need to have measures in place to ensure that all members of the population can successfully face the challenges of new immigration.

Several types of measures and policy instruments are needed to strengthen inhabitants' position in the competition for jobs. A commitment to increased competence through education and training is key, particularly for those with the greatest needs. It is also important that the social security system provides good incentives to work. We must also put the brakes on wage competition to avoid a potential stream of labour immigrants putting pressure on wages. Good and effective regulation is needed to prevent social dumping and undermining labour laws and rights. Effective monitoring must be carried out to ensure compliance with rules and regulations. The general application of wage agreements also plays an important role in preventing downward pressure on wages.

Seniors and older employees

Employment among older workers has increased since 2000. The pension reform has provided stronger economic incentives to stay in employment longer, and this has contributed to increased labour force partici-

pation. Nevertheless, employment for workers in their 60s is still lower than what is needed for the future, in light of higher life expectancy and new pension scheme. In 2018, 45 per cent of those aged 65 and 31 per cent of those aged 67 were employed.

The age limits in the Working Environment Act and pension schemes also have an impact on employment for older employees. In an effort to enable people to work longer, the general age limit for job protection in the Working Environment Act was raised from 70 to 72 in 2015. However, more than one-third of the employees in the private sector work in a company with an internal age limit of 70, which means that all the employees in these companies must retire when they reach this age. Some companies introduced company age limits when the age limit in the Working Environment Act was raised. For employees in these companies, raising the upper age limit in the Working Environment Act may have resulted in more limitations in the opportunity to work after age 70.

In our opinion, more emphasis should now be placed on measures designed to stimulate greater demand for seniors and older workers, to ensure good job opportunities both for those who want to continue in their job, and those who are seeking a new job. An important part of this is an increased commitment to skills development for all employees, regardless of age.

The public sector in particular has many employees in occupations subject to occupational-specific age limits, which initially implies an obligation to retire from one's position when the age limit is reached. Many such occupational-specific age limits were put in place in 1960, and since then, there have been significant changes in the work tasks in several of these occupations. At the same time, employees health has improved. This suggests that all occupational-specific age limits should be reviewed so that more people will stay in employment longer.

Displacement effects

The intention of the expert group's proposals is that more people should be qualified and motivated for work, and make them better able to enter working life. If the proposals are successful, many of those

who have been left out will be able to secure employment. But whether this will lead to increased overall employment depends on potential displacement effects, i.e. whether those who get jobs, displace others. For overall employment to increase, there has to be more jobs in total.

If one looks at individual cases, displacement effects are difficult to avoid. If a company is looking to hire and our proposal entails that a previous recipient of benefits is now qualified and gets the job, then this will come at the expense of the person who otherwise would have been hired.

But isolated individual cases give a false impression of the bigger picture. There isn't a given number of jobs in the economy that must be divided among those who want jobs. Both experience and economic theory show that the number of jobs over time follows the number of people who want to work. It is no coincidence that Sweden, with a population about double that of Norway, has both double the number that want to work, and double the number of jobs.

Several mechanisms contribute to aligning the number of jobs with labour supply over time. New companies and jobs will contribute to the number of jobs rising in line with growth in the working population. If the access to available and qualified labour rises, it becomes easier to establish new companies or create new jobs, as long as total demand in the economy is high enough. In addition, easier access to labour in itself contributes to increased production, which in turn gives rise to increased demand for labour.

The Central Bank's inflation targeting of the interest rate entails a similar mechanism. If there is an increase in the labour supply, and thereby also in the production capacity in an economy, wage growth will be curbed in the short term because companies will have easier access to labour. Lower wage growth results in lower price growth, and together with increased production capacity, The Central Bank can lower interest rates. Lower interest rates stimulates the economy by contributing to increased consumption and higher investment, so that production and employment can grow. The NOK exchange rate will normally also depreciate with a lower interest rate, which will bolster competitiveness and yield increased export.

These mechanisms mean that potential displacement effects in a micro-perspective do not result in similar displacement in the overall economy. Increased labour force participation for those who are currently outside working life will contribute to the creation of more jobs over time, so that total employment increases.

The expert group's mandate

The goal of high employment involves many policy areas. A thorough discussion of all of these extend far beyond what the expert group could reasonably cover in the year that was at its disposal. There are also a number of other committees and expert groups that deal with other relevant areas of policy, and our mandate indicates that we can limit our discussion in relation to such areas. The topic of skills is covered by several other committees, such as the Subsistence Committee (NOU 2018: 43), the Expert Committee for lifelong learning, the Competence Needs Committee (NOU 2019: 2) and the Lied Committee on upper secondary education in Norway (first report NOU 2018: 15), and we will therefore limit our discussion of these issues.

In keeping with our mandate, we will emphasise measures for the groups that risk dropping out of working life, and the groups that may be able to enter the labour market with better guidance and support. Also in keeping with our mandate, we will place considerable emphasis on how the social security system can be changed with a view towards increased employment.

The expert group's work is the first part of an employment committee in two phases. In Phase One, we will analyse the existing knowledge base, and we will propose a number of measures in the areas requested by the mandate. In Phase Two, we will continue our work together with the social partners based on our proposals, and additional proposals may be offered. Discussion with the social partners will be valuable because they possess extensive knowledge and have a good understanding of this field, and also because they are key players. We see a particular need to discuss those areas where the social partners are directly affected by the proposals, or where contributions from the social partners are crucial in achieving good solutions.

1.2 Development in employment after 2000

The employment rate in the adult population has dropped somewhat since 2000. For the 15-74 age group, the employment rate has fallen by about two percentage points to around 68 per cent. This is linked, among other things, to business cycles, with three economic downturns in 2001-2003, 2008-2010 and 2014-2016, respectively. The decline in the employment rate has particularly affected young people, while there are also fewer people in work in the 25-54 age group, particularly among men.

Demographic developments have also contributed to a lower employment rate. There are more older people and more immigrants in the population, and since these groups tend to have lower employment rates than the rest of the population, this contributes to a lower employment rate for the population overall. Notwithstanding, the employment rate for employees between ages 55 and 64 has shown a marked rise, which has somewhat offset the effect of more older people. Increased labour immigration has also led to an increase in employment among immigrants. More immigrants with a refugee background and family reunification have, on the other hand, reduced the employment rate.

Employment in the 15-24 age group has declined, mainly as a result of an increase in the percentage of young people who pursue education. The percentage of young people who are not in employment, education or training is the same as in 2006, which is the first year this group was estimated.

A lower employment rate, particularly for the low-skilled, can also be linked to structural changes in the labour market, which have contributed to increased demand for skills and tougher competition for jobs.

Norway still has a relatively high level of employment compared with many other European countries. However, Norway's ranking has dropped since the turn of the millennium and particularly in the period 2014-2017. Many people have ended up outside the labour market. Even in the core group aged 25-54, as many as 17 per cent are not employed.

Boks 1.1 What determines employment?

Employment in a country is determined by an interplay of structural and cyclical factors.

Over the longer term, labour supply, i.e. how many people are willing and able to work, is the main determinant of employment. Demographic factors such as the age distribution and health condition in the population are of particular importance for labour supply, but other factors such as the education system, settlement patterns, tax rules, social security system and access to childcare also play a role in determining how many people are willing and able to work.

The actual level of employment will still be less than the labour supply. There will always be a certain level of unemployment in the economy, due to the fact that jobs disappear and job seekers need time to find jobs. Many jobs require specific skills, and it may take a long time for companies to find the right employee or for a job-seeker to find a suitable job. Unemployment that is due to the fact that it takes time to match employees with jobs is often referred to as frictional unemployment.

Unemployment will be higher if there is a mismatch between the types of labour companies need, and the available labour supply. For example, there could be a shortage of nurses and carpenters, while the available supply of labour consists of people with different or no education. In economics, equilibrium unemployment refers to unemployment due to frictional unemployment or mismatch in the labour market, for example when the qualifications of the unemployed do not match up with the qualifications demanded by companies.

In the short term, however, cyclical factors are the main determinants of developments in employment. Aggregate demand depends on domestic demand for consumption and investment as well as on foreign demand for Norwegian export products. If aggregate demand in the economy declines, companies will be forced to reduce pro-

duction, and the need for labour will fall. More workers will lose their jobs, and fewer new ones will be hired, so that overall employment falls. This can lead to unemployment becoming considerably higher than equilibrium unemployment, while many also withdraw from the labour force. Employment can thus become considerably lower than the level that can be achieved over the longer term.

The wage bargaining system also plays an important role in determining the level of employment. High wages combined with low levels of wage inequality are a sign of a healthy economy, with high productivity and a relatively equal distribution of the value of production. However, if the wage level for some groups is high relative to their productivity, employment for these groups will be lowered. If overall wage growth is too high, tightening economic policy to prevent excessive inflation might become necessary

Therefore, to achieve a high employment level in a country, one must ensure:

- A large supply of labour, in the sense that the largest possible share of the population is both willing and able to work.
- A well-functioning labour market with low frictional unemployment and a good adjustment between skills demanded by employers and the skills supplied by workers, i.e. low equilibrium unemployment.
- A high and stable level of aggregate demand in the economy, so as to prevent or curb slumps in which unemployment is substantially higher than equilibrium unemployment.
- A well-functioning system of wage bargaining, where wages adapt to the productivity level of different groups and overall wage growth does not lead to excessive growth in costs and high inflation.

In keeping with its mandate, the expert group will largely focus on analysis and measures associated with the first item in the above list, and also on item two, to some extent.

1.3 Development in benefit recipients after 2000

At the end of 2017, a total of 687,000 people of working age received some form of social security benefits¹, i.e. about 20 per cent of the population in the 18-66 age group. The percentage has varied somewhat over time, and is now about one percentage point lower than in 2000. Approximately eight of ten recipients receive a health-related benefit, i.e. 17 per cent of the population in the 18-66 age group.

Since 2000, there has been an increase in the percentage of young people who receive Work Assessment Allowance or disability benefits. There has been a significant increase in 18-year-olds who receive disability benefits, mainly due to various types of physical or mental disabilities or serious mental illness. There has also been an increase in the influx to Work Assessment Allowance and disability benefit among people in their 20s, and the percentage of 29-year-olds on these benefits has grown from 5.2 per cent in 2000 to 6.3 per cent in 2017.

The aging population has contributed to increased use of health-related benefits. At the same time, the tendency for older, working-age people to end up on social security benefits has declined strongly. Immigration has also contributed to less use of health-related benefits because immigrants are generally younger and have often not yet earned the rights to such benefits. Changes in rules and regulations for benefits have also had an impact on the developments in social security use, but in somewhat different directions.

Receiving social security benefits does not necessarily mean that a person is outside the labour market. Many who receive such benefits do have an attachment to the labour market, and many combine benefits with work. This applies both to those with permanent disabilities and those who have shorter absences due to illness. Around half of those who receive health-related benefits are either undergoing education or are attached to the labour market as an employee, job seeker or participant in an active labour market program.

¹ This includes disability benefits, work assessment allowance, sickness benefit scheme, unemployment benefits, social financial assistance and the transitional benefit (for single parents).

Compared with other countries, Norway has few people on unemployment benefits; on the other hand, absence due to illness is high, and a high percentage receive disability benefits. Although Norway has experienced a small decline in sick leave and the percentage on disability since the peak at the turn of the millennium, the decline in Sweden and the Netherlands has been stronger.

1.4 Social security benefits – objectives and trade-offs

A well-functioning system of social security is important for well-being and economic security, because it offers income when the ability to be self-supporting is reduced or lacking. In Norway, the system can be viewed as a public insurance scheme where both benefits and financing through the tax system are linked to income. Such an insurance scheme has beneficial effects for welfare and efficiency. If a person loses his or her income due to disability or job loss, receiving benefits can lessen the loss of income and thus soften the negative welfare effects. The benefits can also buy the person time to re-gain the ability to work and to find another job. The fact that rights to social security benefits are based on previous earning can foster incentives to become employed.

The social security system in Norway entails a substantial degree of redistribution, in part through the fact that minimum benefits or fixed rates apply regardless of income in most of the schemes. An upper ceiling for calculations also applies for all benefits. The redistribution moderates the negative effects of income reduction or loss due to poor health or unemployment. Such an equalisation of income counteracts poverty and can have favourable effects on education for the entire population, as well as growth in the economy.

Like all insurance and redistribution systems, these schemes also have unfortunate incentive or behavioural effects. When the loss of income is fully or partially offset by benefits, there will be weaker incentives to avoid loss of income. Less than full compensation for the loss of income would provide incentives to prevent the loss of income before it happens, and to return to normal earnings if one receives

benefits. An extensive economic literature has documented that more generous schemes with higher degrees of compensation also entail stronger negative impacts on incentives and employment. Such negative impacts will usually not be due to cheating or abuse of the schemes, but reflect the fact that economic incentives have an impact on motivation, priorities and efforts to secure work.

A number of dilemmas come into play when designing benefit schemes. The most fundamental of these is how to balance conflicting goals of economic security with incentives for work. A less generous system with lower benefits offers less economic security, but at the same time entails stronger incentives, which in turn reduces the use of benefits and has a better effect on employment. How to handle this dilemma is largely a question of political priorities. Yet it is still possible to shed light on the consequences of the choices that are made based on economic thought.

There are several reasons why considerable weight should be given to the effects of incentives. One reason is concern for the recipients. In the short term, generous benefits provide few work incentives for finding work, and this can impair the recipient's efforts to find a job. Over the longer term, the benefit of work is much greater. If work is possible, employment will also be in the best long-term interests of the benefit recipients.

Incentive effects are also important for society as a whole. It is important for society to have more people in work, and a high employment level is key for both production in society, and for fiscal sustainability. It is also important to consider the overall consistency and stability of the economic system. If too many people receive benefits, both fiscal sustainability and the entire legitimacy of the system can be undermined. Broad support in the population and in the politics is necessary to ensure that the system is sustainable in the long term.

The importance of putting individual recipients to work is reinforced by the existence of "contagion effects" in the benefit system, i.e. effects where the lack of labour force participation for one person can lead to other people in their circle also withdrawing from the labour market. Increased use of benefits can thus be self-reinforcing. At the same time, contagion effects also imply that measures that make a per-

son start working can have ripple effects by contributing to increased employment among others in the same social circle.

1.5 Measures to increase employment

The expert group proposes a number of measures to increase employment. Here we present the main proposals along with a brief explanation of the reasons behind them. The proposals are divided into eight groups, four of which are linked to benefits, two to skills, labour-market measures and follow-up, and two to labour demand. The more detailed proposals are found in the respective chapters in the Norwegian report, NOU 2019: 7, with a summary at the end of each chapter.

Young people on health-related benefits

The share of young people under age 30 on disability benefits or who receive Work Assessment Allowance (temporary disability benefits) has increased from 3.4 per cent in 2000 to 5.1 per cent in 2017. An increased percentage on Work Assessment Allowance accounted for the majority of this increase. Health problems are not necessarily the reason that many young people on Work Assessment Allowance are without a job. For this group, receiving a health-related benefit can lead to excessive focus on health-related challenges and can weaken their opportunity to start working. This gives reason to pursue measures aimed at reducing the influx of young people to health-related benefits.

The level of health-related benefits to young people should be viewed relative to income levels for non-recipients in the same age group. In the 18-24 age group, people who receive benefits for the entire year have significantly higher incomes than those who do not receive benefits, also when financial aid to students is included. This yields an unfortunate incentive effect which can contribute to more people receiving benefits, and it gives a picture of the long-term economic consequences of being a benefit recipient that is too positive.

The expert group proposes a reduction in the minimum levels for Work Assessment Allowance for young people in order to reinforce

work incentives and contribute to fewer people ending up in the scheme. The minimum levels should be differentiated within the 18-24 age group, and further differentiation should be considered based on whether or not the recipient lives with his or her parents. The savings from reduced benefits should primarily be used to improve follow-up and active labour market measures for young people who are at risk of ending up as benefit recipients, in order to reduce the number of young people on benefits.

Measures should be implemented to limit access to the health-related benefits for young people who have not been employed, and where the challenges are more likely to be related to skills rather than health. The goal is to prevent potential medicalisation, and the unfortunate long-term effects this can have for young people. The Qualification Programme or other suitable measures should be used to a greater degree for this group.

A new sickness benefit scheme

The sickness benefit scheme is important for welfare and security for employees. At the same time, absence due to sickness entails substantial costs for employers and for society in general. Long-term sickness absence can result in employees entering other health-related benefits, and gradually losing their connection to working life. Therefore, measures to reduce absence due to sickness are needed.

Extensive research shows that economic incentives for employees and employers are important factors explaining the scope of absence due to sickness. A key problem in the current sickness benefit scheme is that the employers' fiscal responsibility for sick pay is mainly related to short-term absence, which is probably the type of sick leave for which employers have the least influence over. Moreover, there is not enough use of partial sick leave, despite the fact that research indicates that increased use of partial sick leave can contribute to reducing sick leave.

We propose changes in the sickness benefit scheme with a view to limiting long-term absence due to sickness. This can be done by increasing employers' responsibility to finance long-term absence

within a cost-neutral framework, in a way that reinforces employers' incentives to contribute to partial sick leave. Specifically, we propose that the initial employer period be reduced from 16 to 7 days, and that during the remainder of the sick leave period, the employer covers 10 per cent of the sickness benefit up to 50 per cent of full sickness benefit and approximately 25 per cent of the sickness benefit beyond that.

To provide an economic incentive for employees to use partial sick leave, we propose that partial sick leave should give an extension of the maximum duration of the sick leave period. Specifically, we propose that the maximum sick leave period be set at 12 full-time months, but with an upper limit of 18 months for the total absence period in cases of partial sick leave. To reduce absence due to sickness, we propose reducing the level of compensation for employees to 80 per cent after 6 full-time months of absence.

For persons on sick leave who have good prospects of returning to the same employer after these maximum periods, it should be possible to extend the sick leave period with the same compensation rate as for Work Assessment Allowance.

Work-oriented disability benefits

Research and experience shows that, in many cases, work can promote health. This applies for example to people who have back and skeletal ailments and mental illness. Many health problems are bothersome whether one works or not, while at the same time, work can bring positive effects through activation, social contact and better self-image. Several studies show that loss of work results in a substantial increase in the risk of ending up on disability benefit, and that the risk is increasing with the difficulty of securing a new job. This indicates that there is considerable work capacity on the part of many who receive disability benefits.

Despite this substantial work capacity on the part of many who are on disability benefits, just one out of every four new recipients of disability benefits receives partial benefits. The Office of the Auditor General notes that there has not been a notable increase in new recipients of partial disability after the disability reform was introduced.

In our opinion, the main problem with the current arrangement is that it does not place enough emphasis on the demand side of the labour market. Despite a desire to work and considerable residual work capacity, it is often difficult for people with health problems to succeed in the competition for jobs in the regular labour market.

We propose that disability benefits be made more work-oriented by means of changes that contribute to making people who are on partial disability benefits more attractive in the labour market. A main element in this scheme is the introduction of health-adjusted pay, where a disability decision entails an estimated reduction in productivity per hour. Employers pay an hourly wage that is based on ordinary wages, adjusted for the reduction in productivity. The disability benefit is then given as compensation for reduced hourly pay, and eventually also for reduced working hours. Other measures should also be implemented to improve the job opportunities, such as support and follow-up, assistance in finding a job in the private sector or the option of employment with health-adjusted pay in the public sector.

We also propose an income benefit in connection with unemployment for those who receive work-oriented partial disability benefits. This could further increase the use of partial disability benefits.

We propose that the work-oriented national insurance system be introduced gradually and initially for three target groups. The system should apply in full for new applicants for disability benefits born after a specific year, such as 1990. Pilot projects should also be conducted for people with health problems that result in reduced work capacity in the job they currently have and where there is indication that the person will not have better opportunities in other jobs. On a voluntary basis, people with a disability decision under the current national insurance scheme should also gradually be given the opportunity to seek employment with health-adjusted pay.

Other proposals linked to social security benefits

The system of social security benefits has developed over time, and its design has often been influenced by its historical context. This means that some aspects may have been designed in a way that, in

some cases, provides weak incentives to work more, and without being based on considerations for economic security and welfare in all cases.

We propose a change in the rules for reducing Work Assessment Allowance and unemployment benefits, whereby the rules will be based on income rather than number of hours worked. This ensures that it is profitable to work, also in cases where the recipient must accept a lower hourly wage than before. We propose that Work Assessment Allowance can be graduated when it is granted, which will yield stronger incentives to utilise any remaining work capacity.

We propose that the free income allowance in the disability benefit and the transitional benefit (for single parents) be replaced by a reduced deduction of low employment income. A smaller deduction over a longer interval provides better economic incentives to work beyond the current income limit.

Empirical research indicates that the cash benefit (paid to parents for children between one and two years of age not in nursery) has a definite negative impact on the desire for mothers to work. Therefore, we propose limiting the cash benefit support for children between one and two years of age so that it is only given when parents have been unable to secure a place in a nursery.

We also propose pilot projects involving expanding unemployment benefit recipients' opportunity to complete compulsory schooling or upper secondary education, in return for a reduction in unemployment benefits.

In the Norwegian social security system the benefit of moving from passive recipient of benefits to employment is in some cases quite small. The aim to reinforce the incentives for work indicates that the tax system should be changed in the direction of less tax on work, particularly on low income levels, and more emphasis on other types of taxations, such as environmental taxes and taxes on resource rents and property. Existing knowledge base indicates that in-work benefit will yield moderate employment gains and a significant loss of revenue. We therefore do not recommend that this be introduced now.

Skills and qualifications

Skills appear to be becoming increasingly important for success in the labour market. Employment is lower and unemployment and exclusion from the labour market are higher for those who have not completed upper secondary education. Getting more people to complete upper secondary school is important for employment. New technology and other structural changes in the economy increase the need for learning throughout working life.

An activity-based social security system where fewer people are left in a passive state while receiving benefits from NAV will contribute to increased employment. Therefore, we propose more intensive follow-up and increased resources devoted to active labour market measures. These suggestions align well with proposals for changes in social security benefits such as more graduated benefits a work-oriented disability benefit, and increased use of a combination of work-related measures and medical treatment. NAV must receive more resources so they can carry out closer follow-up of their user groups than is the case today.

There is still a need for more knowledge in this field. Significant sums are spent on follow-up and labour market program every year, both in the workplace and in NAV. Nevertheless, knowledge about implementation and effects is still somewhat lacking. Therefore, we propose increased research efforts and we point to certain specific areas that should be subject to more research, such as cost-benefit analyses of labour market measures. It is also important to place greater emphasis on disseminating knowledge within NAV, so that case-workers in NAV to a greater degree can apply the measures that work best for specific groups.

Health, follow-up and work

The employment gap between men aged 25-54 and people with disabilities is larger in Norway than the average in the OECD. Many of those outside of the labour market end up on health-related benefits. At the same time, it is often beneficial for people with health problem to work. It is important to provide structured follow-up of those who receive

a health-related benefit within NAV or in health services while at the same time allowing room for adaption to individual needs.

To support a more activity-based social security system, we propose measures that can contribute to preventing sickness absence and can help more people return to work faster. We also propose measures to improve follow-up and support. Better interaction between NAV and health services is necessary to encourage more people to combine work-related measures and medical treatment. This aligns well with our proposals for more use of graduated benefits and work-oriented disability benefits. In addition, benefit recipients should be subjected to activity requirement to the greater degree than is the case today.

Easier entry into working life

There must be sufficient demand for labour in order for increased labour supply to lead to higher employment. Therefore, overall economic policy must contribute to the objective of high employment, not least by ensuring a high and stable level of demand in the economy

The commitment to training and qualification must be stronger if we are to increase employment among immigrants with refugee backgrounds and their families, who often have weak qualifications in the Norwegian labour market. The Introduction Programme provides basic skills and can be combined with various work or training-related measures. Practical work through a temporary subsidised employment relationship can also be a relevant measure to put more people to work.

Measures that contribute to reducing wage costs for people with low or uncertain productivity can lead to work for more people. We propose increased use of wage subsidies to foster labour market inclusion. To counteract unintended effects, the subsidy must target vulnerable groups who have particular difficulties in securing a job. Wage subsidies should be temporary.

Greater use of self-employment support schemes and other policy instruments that encourage the unemployed to start their own business should be considered. More knowledge is needed regarding the effects of such support, which makes this an area that may be well-suited for pilot projects.

Job protection contributes to making employment relationships more secure. At the same time, strict job protection rules may lead employers to be more cautious in hiring new employees, which can impair employment for vulnerable groups. We believe that the probationary period that applies to employees in new jobs should be made more of a reality. This can be done in a number of ways. Relaxing the special requirements that apply for justifying termination during the probationary period would probably make employers more willing to hire an employee with uncertain productivity, for example due to limited work experience. Alternatively, a somewhat longer probationary period than the current six months could increase employers' opportunity to properly observe an employee before offering permanent employment.

Age limits in working life

The pension reform has contributed to an increase in employment among older workers. However, employment still declines rapidly after age 60.

Higher life expectancy and the new pension scheme mean that many employees must remain in work longer in order to maintain their pension level. This gives strong economic incentives to remain on the job. Additional incentives to stay in work longer are thereby of lesser importance, while it is more important to encourage increased demand for seniors and older workers. This in turn indicates that there will be less need for various types of employee benefits aimed at older workers, which entail higher hourly wage costs. On the other hand, efforts to increase employment of older workers in the labour market should be bolstered, with emphasis on skills and measures to increase demand.

Age limits in working life, such as in the Working Environment Act and in occupational pension schemes, are also very significant factors influencing the employment of older workers. Increasing life expectancy suggests that employees must work longer than before. On the other hand, there is considerable individual variation in how aging affects work productivity, and a high age limit can mean that more older employees are perceived as being unprofitable, from the employer's viewpoint. The fact that many private enterprises have internal age lim-

its that are lower than the general age limit in the Working Environment Act suggests that many companies want to limit how long older employees can continue to work. If the employers are concerned about being left with unprofitable older employees, it may make them more cautious in employing people who are a bit younger than retirement age. That could impair employment opportunities for workers in their 60s.

We propose that the upper age limit for retirement in the Working Environment Act should be reduced from 72 to 70 and that internal company age limits be removed. At the same time, the social partners should develop arrangements that make it easier for employees to work beyond the age limits, with adjusted wages and working conditions, so that both parties benefit from the employment relationship. Overall, this can boost employment among older workers below the age limit, and it will increase opportunities to work after age 70 in large segments of the labour market.

All occupational-specific retirement age limits should be reviewed with a view to keeping more older people on the job. In some cases this could mean that use of an occupational-specific retirement age is discontinued or converted to a better pension scheme with flexible withdrawal of benefits. In other cases, wages and pension conditions must be adapted to allow employees to start a new career when they have passed occupational-specific limit.

1.6 An overall strategy

Several of the expert group's proposals go straight to the issue of difficult trade-offs in social security and labour market policy. Our point of departure is that, despite a relatively high employment level in Norway, there are far too many who are left outside the labour market. Putting more people to work will be good for the individuals themselves, and it will contribute to increased production, improved public finances and a more robust welfare system.

There is often a link between lack of participation in the labour market and health problems or poor skills. However, health problems need not prevent work, and weak skills can be improved. If the conditions are

arranged in a way that facilitates this, then many more people can participate in the labour market. Isolated measures are not enough to succeed in increasing employment. Many different barriers can prevent participation, and this requires a broad-based strategy. Our proposals aim for this with a number of complementary measures in line with a classification often used by OECD:

- Measures that contribute to qualifying, support and follow-up, so that more people *can* work.
- Measures that strengthen the economic incentives for work, so that more people *want* to work.
- Measures that make it more profitable to employ workers with health problems or weak skills, so that more people *are offered* work.

Viewed in isolation, both measures that strengthen the economic incentives and measures that make it more profitable to employ people from vulnerable groups, entail difficult trade-offs. However, as an overall strategy, it is our assessment that this will contribute to increased employment in the affected groups – for their benefit, and for the benefit of society in general.

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