

1

Assessment and recommendations

Ailbhe Brioscú, OECD

Sandrine Cazes, OECD

Anja Meierkord, OECD

Andrea Salvatori, OECD

Theodora Xenogiani, OECD

Faced with the backdrop of sudden changes in the labour market due to the onset of the COVID-19 pandemic, Nordic countries were quick to respond through policy interventions across the areas of unemployment benefits, job retention schemes, active labour market policies and skill policies. This chapter provides an overview of the impact of the pandemic on Nordic labour markets and an assessment of the associated policy responses undertaken. Drawing on the key lessons that can be derived from the Nordic crisis response, the chapter also provides a set of key recommendations in each policy area to enable Nordic countries to build more inclusive and resilient labour markets in the post-pandemic period.

1.1. The labour market impact of the COVID-19 crisis in the Nordic countries

At the onset of the COVID-19 pandemic, governments in the Nordic region and across the OECD quickly intervened to contain its spread and the associated economic fallout. A wide range of interventions were put in place to cushion the labour market impact of the crisis, protecting jobs and incomes and preserving production capacity in an extremely uncertain environment (OECD, 2022^[1]; OECD, 2020^[2]; OECD, 2021^[3]). These interventions and the subsequent recovery plans enhanced the resilience of labour markets across the OECD, fuelling a recovery from the COVID-19 crisis whose speed exceeded expectations in many cases.

The stark contrast of this experience with the slow recovery from the global financial crisis of 2008-09 highlights the importance of labour market resilience, i.e. limiting fluctuations in employment and ensuring a quick rebound in the wake of economic shocks. Labour market resilience is crucial not only to limit short-term social costs but also to support labour market and economic performance in the medium to long term (OECD, 2018^[4]).

Relative to the OECD as a whole, GDP fell less in the Nordic countries at the height of the COVID-19 crisis and grew more in the recovery. Indeed, the cumulative growth in GDP between Q4 2019 and Q2 2022 was larger in each of the Nordic countries than for the OECD as a whole (+2.8%), with the only exception of Iceland. The largest increases were recorded in Denmark (+5.5%) and Sweden (+5.1%).

Like many other OECD countries, Nordic countries have seen a fast recovery of their labour markets following the COVID-19 crisis. Over the course of the crisis, the five countries, however, exhibited different degrees of resilience. All five countries experienced larger increases in unemployment than most other European countries that also made extensive use of job retentions schemes – with a particularly significant spike in Iceland. These increases were quickly reabsorbed in Denmark, Iceland and Norway, but Finland and Sweden experienced higher unemployment for longer than the OECD average.

The falls in employment rates in Nordic countries were generally in line with those recorded in European countries, except again for Iceland. This latter country recorded one of the slowest recoveries in employment rate among all the OECD countries – with the employment rate still below its Q4 2019 level after 9 quarters. Albeit of a smaller magnitude, the decline in employment rate was also comparatively persistent in Sweden, where a full recovery was achieved after 8 quarters against an average of just over six quarters across all OECD countries. Among the autonomous territories, the impact on the employment rate of the crisis was much larger in the Åland Islands than in any of the Nordic countries – in Q2 2020, the employment rate almost halved relative to its Q4 2019, reaching 39%. This was largely driven by the severe hit that tourism and the shipping industry took when travel restrictions were introduced in March 2020 which led to a drop in GDP in 2020 of 19%. The impact of the crisis on the employment rate in the Faroe Islands and Greenland was much more muted and in line with that in the rest of the Nordic region.

1.1.1. The impact of the crisis was generally stronger and longer on the low educated and the young

The differential impact of the crisis on industries translated into an unequal impact on groups of workers, with young people, migrants and people without tertiary education generally seeing larger reductions in employment and increases in unemployment.

Thanks to the robust recovery, much of the unequal impact had been reabsorbed by early 2022. Nevertheless, young people and workers without tertiary education felt the effects of the crisis more strongly and for longer. Young people saw a longer contraction in employment than older workers in all Nordic countries except Iceland, although the latter was the country in which youth employment fell the most.

The larger and longer decline in employment for people without tertiary education was also a common pattern across the Nordic countries. The hit for the low educated was particularly prolonged in Sweden and Iceland – indeed one of the longest in the OECD. In the case of Iceland this was linked to the particularly large initial fall, but several countries had faster recoveries from larger falls than Sweden. In Norway – which exhibited an overall high degree of resilience – people with upper secondary education suffered relatively more.

1.1.2. The crisis has led to an increase in teleworking that raises new policy challenges

The forced experiment in mass teleworking led business, governments and workers to adapt quickly to maintain activity and employment during the COVID-19 pandemic. As a result, teleworking use boomed in most OECD countries independent of their pre-COVID teleworking prevalence. While the use of teleworking receded from the peak of 2020, the latest data do confirm that it remains high and is likely here to stay. In Nordic countries, the increase was particularly stark in Finland where the incidence of employees working from home increased from 27.8% in 2019 to 39.3% in 2021.

In Nordic countries, post-pandemic discussions on facilitating access to teleworking and associated working conditions have mostly occurred at the firm level and through individual working contracts. However, the new context generated by the COVID-19 crisis has also led to new policy initiatives in Denmark and Norway. Denmark introduced new rules concerning the quality of the working environment, placing an obligation on employers to provide the necessary tools to employees if they work from home for more than two days per week each month. Following a series of rounds of consultation with social partners, Norway amended its legislation on the working environment in the summer of 2022. The amendments removed existing exemptions from working hours regulations for work performed from home, meaning that the same rules will now apply for work performed from home or from an office – including those restricting work at night and on Sundays. Employers are also required to apply the same rules on the psycho-social work environment to employees working from home and from the office. The Norwegian Labour Inspection Authority is charged with monitoring compliance.

The increase in teleworking raises questions on its impact on gender disparities in the labour market

The changes induced by the pandemic reversed gender disparities in the incidence of teleworking in some countries. While women tended to work from home less (both occasionally and usually) than men before the pandemic in all Nordic countries, more women than men reported that they usually worked from home both in 2020 and 2021 in Denmark, Finland and Sweden. In Iceland and Norway, men continued to work from home more than women in 2020.

The increased use of teleworking among women raises questions on how it might affect disparities in work-life balance, wages and career progression between genders. Evidence from before the pandemic suggests that the effect of teleworking on gender disparities might depend on the pre-existing level of inequality (OECD, 2023^[5]). In already unequal contexts, for example, teleworking tends to be used primarily by mothers as a way to balance work and family commitments, while fathers might use it for other reasons, such as productivity enhancement. Studies have also found that teleworking is associated with a wage boost mostly for men. This might partly reflect actual gendered productivity effects, but gendered stigma, social norms, and firms' managerial culture might also play a role.

Finally, while robust empirical evidence on career progression is still missing, studies suggest several contextual elements surrounding teleworking might negatively affect the career prospects of teleworkers and particularly women. These include the fact that, at least since the pandemic, men use it less than women, that men use (or are at least assumed to use) teleworking for different reasons than women, and that in many workplaces career advancement hinges on visibility and input measurement, rather than output evaluation (OECD, 2023^[5]).

1.2. A flexible system of support for jobs and incomes during crises

1.2.1. Nordic countries shored up the unemployment benefit system during the COVID-19 crisis

Nordic countries are characterised by comparatively generous unemployment benefit (UB) systems, with high levels of coverage – except in Sweden – but with significant gaps for migrants, the young and the low educated. As the COVID-19 crisis struck, Nordic countries – in line with most other OECD countries – adjusted the existing unemployment benefit systems to ensure strong support for the largest possible number of people who lost their jobs. Concerns about work incentives and moral hazard were set aside, since jobseekers had only poor chances of finding new work at a time when large parts of the economy were effectively at a standstill. Indeed, job-search requirements were initially suspended in all countries either formally or informally.

Since the onset of the crisis social partners were involved in the fast decision-making process that led to the implementation of changes to the UB system through both standard formal channels and more informal channels in all Nordic countries. In some cases, proposals formulated jointly by the social partners provided stimulus for the government decision.

To improve access to benefits for those with shorter tenure and the young in particular, Finland, Norway and Sweden relaxed minimum work requirements to access UBs. Denmark, Finland, and Norway extended benefit duration and benefit levels increased for at least some workers in all countries except Finland, which however increased the earning disregard for workers cumulating UB and income from work. All Nordic countries shored up existing support for the self-employed as well, and Norway introduces a new temporary ad hoc subsidy for them.

Nordic countries generally saw a larger increase in the number of UB claimants compared to several other European countries that also made extensive use of job retention schemes, reflecting the larger increase in unemployment seen in the Nordic region.¹ However, the larger increase in unemployment seen in the Nordics may in part also be driven by their higher reliance on UBs rather than Job retention (JR) support. Indeed, the existence of well-established and generous UB systems likely made it easier and more acceptable to both firms and workers in these countries to rely on UBs rather than JR support.

The increase in the number of claimants is also the result of countries effort to increase coverage among the unemployed during the COVID-19 crisis. Indeed, during the COVID-19 crisis, all four Nordic countries with data available saw increases in pseudo-coverage rates – the ratio of benefit recipients from administrative sources to the total number of unemployed from labour force surveys – with particularly significant increases in Norway and Iceland.

1.2.2. During the COVID-19 crisis, the use of job retention schemes in Nordic countries was unprecedented but lower than in most other European countries

Job retention schemes have been one of the key policies used in the Nordic countries and across the OECD more broadly to support workers' jobs and incomes during the COVID-19 crisis and to lay the foundations for a strong recovery. Job retention (JR) schemes seek to preserve jobs and incomes of workers at hard-hit firms by paying subsidies to lower firms' labour costs against reductions in hours worked.

At the start of the COVID-19 crisis, all Nordic countries took steps to make JR support widely available – in line with most other OECD countries. Finland and Norway – both of which offer UB to workers who are placed on JR support, or temporarily laid off – modified their existing schemes. Iceland and Sweden introduced a new one, while Denmark did both things – introducing a COVID-19 version of its existing scheme and a brand new scheme also available to firms not covered by collective agreements.

All Nordic countries simplified application procedures for firms and suspended or shortened procedural processes normally meant to prevent abuse of the schemes, such as negotiations or consultations with workers' representatives.

Nordic countries also extended eligibility for workers. Finland extended coverage of the schemes to temporary workers. Norway and Sweden already covered temporary workers under their existing schemes, while Denmark and Iceland covered them under their newly introduced schemes. In Finland and Norway – where workers on JR support receive UB – the relaxation of eligibility requirements for UB also benefitted workers on JR. In the new scheme introduced in Iceland, receipt of UB while on JR support was not subject to standard eligibility requirements for such benefits.

While a majority of OECD countries set to zero the cost of hours not worked for firms, this was only the case in Finland and Iceland among the Nordic countries. In Norway, Sweden, and in the new furlough scheme in Denmark, firms continued to bear a comparatively high portion of the cost of hours not worked throughout the crisis. In Norway, however, the cost to employers results from the obligation to pay full salary to workers for a certain number of days (which was reduced from 15 to 2 between March and September 2020) before they begin receiving benefits. Similarly to the Finnish system, employers in Norway do not contribute to the cost of hours not worked once employees start receiving benefits. Hence, firms face no additional cost in case of extension of the scheme and the average cost of an hour not worked decreases with the duration of the scheme.

From the workers' perspective, the schemes in Norway, Sweden and Denmark during the COVID-19 crisis were some of the most generous in the OECD. In Denmark, workers received 100% of their wages under the new furlough scheme, while Norway and Sweden increased the generosity of the support for workers at the start of the crisis, from levels that were already comparatively high.

In the Nordic countries, the use of JR support was unprecedented, but much lower than in many other European countries. Peak take-up was around 10% of dependent employment in Sweden, Norway, and Denmark, and 8% in Finland. It was larger in Iceland, where it reached 18% but still below the OECD average of 20%.

Simple cross-country comparisons indicate that differences in the peak use of JR support across countries largely reflect the intensity of the crisis rather than differences in their broader institutional settings. Peak take-up rates are correlated with both the stringency of the lockdown measures and the fall in GDP. Indeed, the Nordic countries generally experienced smaller contractions in GDP and less stringent restrictions at the start of the pandemic than most other European countries.

In addition, the comparatively lower use of JR support in the Nordic countries might at least in part reflect the fact that the schemes were more onerous for firms – at least in Denmark (for the newly introduced furlough scheme), Norway (if the scheme was used for a limited time period) and Sweden. Indeed, this might be a policy choice reflecting the fact that the existence of well-established, and generous unemployment systems operating through highly digitalised processes made the use of UBs easier to scale up and generally more acceptable to both firms and workers, facilitating a comparatively larger reliance on UB rather than JR during the crisis.

1.2.3. The experience of the COVID-19 crisis has highlighted the importance of swift adjustments to income support policies tailored to the specific challenges of the time

Job retention schemes and unemployment benefits are key policies to support workers' jobs and incomes during recessions. They can enhance labour market resilience and inclusiveness by protecting workers' incomes and stimulate the recovery by supporting aggregate demand, preserving production capacity and facilitating the transition to new jobs. Many of the measures adopted by the Nordic countries and more broadly across the OECD to adapt their UB and JR systems to the COVID-19 crisis reflect the specific nature of the crisis and therefore cannot offer a playbook for future recessions. The COVID-19 crisis,

however, has shown clearly the importance of adjusting policies and doing so in a timely manner. In light of this experience, and to enhance resilience to future crises, Nordic countries could consider the following.

Ensure more inclusive income support for the unemployed during crises by adjusting UB systems to changing labour market circumstances

Minimum work requirements to access UB help reduce the risk of frequent transitions between unemployment and employment. However, in times of crisis, they can exacerbate labour market inequalities by excluding from income support the young and workers with shorter tenure who are more likely to lose their jobs. Similarly, a severe recession greatly reduces the potential moral hazard cost of longer or higher benefits and increases their value in stimulating demand. These arguments suggest adjusting the rules of the UB system to variations in labour market conditions as reflected by the level and evolution of unemployment. These changes could be introduced through rules triggering automatic adjustments of either eligibility conditions, maximum duration or benefit level or by establishing agile processes involving governments and social partners to implement any changes as necessary.

Introduce rules or agile processes to ensure that JR schemes are mainly used in times of crisis and phased out rapidly when the economy recovers

The risk that JR support hinders employment reallocation is greatly reduced when labour demand is severely depressed. During a severe downturn, job retention schemes can help reduce flows into unemployment and attenuate congestions in the labour market, ultimately contributing to a smoother recovery. These facts provide a justification to adapt the eligibility conditions and the generosity of the schemes to the evolution of labour market conditions. The particular nature of the COVID-19 crisis meant that a consensus quickly formed on the necessary actions, making it possible to decide and implement the changes. To ensure that changes are introduced in a timely manner in future crises, Nordic countries could adopt automatic rules that link specific parameters to the labour market situation or ensure that agile processes are in place – involving Governments and social partners – to revise the rules that determine the costs for firms and the benefits for workers quickly when necessary.

Increase the targeting of JR schemes to jobs at risk through firms co-financing of hours not worked

While in all Nordic countries the use of JR schemes by firms involves procedural up-front costs that can help discourage abuses of the scheme, in Finland and Norway firms do not contribute to the cost of hours not worked once workers start receiving benefits. Introducing co-financing (possibly allowing the level to vary with labour market conditions) might help reduce subsidies for firms that do not really need them and increase the targeting of the support towards jobs that firms expect to remain viable in the longer term (Hijzen and Venn, 2011^[6]).

In most OECD countries with a permanent scheme, firms are required to contribute to the cost of hours not worked (OECD, 2021^[3]). Co-financing might impact firms differently depending on their ability to access external finance. Based on this consideration, some countries – such as Spain and Japan – have less onerous co-financing rules for small firms.

As an additional way to help firms that face particularly severe liquidity constraints, all countries could consider adopting forms of co-financing of hours not worked through an experience rating mechanism, whereby firms reimburse part of the subsidy once they leave the scheme. Experience-rating has long been a feature of income support systems in the United States, while, following recent reforms, in Italy firms pay higher social security contributions after they have made use of the scheme.

Leverage administrative data to evaluate the merits of different design features of JR schemes and inform their design to enhance labour market resilience to future crises

There is a general consensus that JR schemes saved millions of jobs across the OECD during the COVID-19 crisis, but there are very few studies offering rigorous evaluations of the impact of the schemes in specific countries and none evaluating the merits of different design features. As discussed in more detail in Chapter 3, the design of JR schemes differs substantially in several dimensions across the Nordic countries. These differences may have played a role in explaining the differences across the countries in labour market performance over the COVID-19 crisis. Rigorous analyses on this point require disaggregated data on the use of the scheme by firms and workers and are hampered by the contemporaneous deployment of many different policies, their rapid and frequent changes as well as by the evolution of the economic and health situation over the course of the crisis. Nevertheless, even studies focusing on less turbulent and exceptional times that leverage administrative data on firms and workers can provide useful insights to inform the design of job retention schemes to improve the resilience of labour markets to future crises. In particular, the priorities going forward should be (i) to evaluate the effectiveness of job retention schemes in protecting different groups of workers and (ii) to understand the role of different design features in enhancing labour market resilience and inclusiveness.

1.3. Strengthening Public Employment Services (PES) and active labour market policies

To address the challenges brought about or exacerbated by the rapid onset of the COVID-19 pandemic, Nordic PES implemented changes across two key dimensions; firstly, altering the operating models and delivery channels to enable service continuity, and secondly, expanding and adapting their active labour market policies (ALMP) offerings to the dramatically changed labour market backdrop. It is crucial that Nordic PES draw lessons from their experience during the pandemic and commit to generating the evidence for what worked and what did not. It is also important that they take further steps to ensure that their ALMP systems are oriented to promote more resilient and inclusive Nordic labour markets in the post-pandemic period.

1.3.1. Despite comparatively high expenditure on ALMPs pre-COVID, most Nordic countries decreased spending on ALMPs during the pandemic

In 2019 all Nordic countries except Norway had significantly higher expenditure on ALMPs compared to their other OECD counterparts. Upon the onset of the pandemic and with the variety of challenges that ensued, the majority of OECD countries responded by increasing their expenditure allocations to ALMPs. Surprisingly this trend did not extend across the Nordic region. In fact, all countries except Norway decreased the share of spending allocated to ALMPs in 2020 (as a percent of GDP).²

Overall, this differential trend reflects the high-level policy prioritisation in the Nordic region, with Nordic countries channelling resources mainly towards unemployment benefits and JR schemes over ALMPs, particularly in the early stages of the pandemic in 2020. ALMP activity in these early phases was greatly limited – and in some cases was mostly paused – due to a view in most Nordic countries that ALMPs had minimal scope against prevailing public health restrictions and suppressed economic and labour market conditions, contributing to the decline in ALMP expenditure seen in most Nordic countries in 2020. As a result, changes to ALMPs primarily took place in the latter stages of the pandemic as easing public health restrictions allowed for the gradual resumption of societal and economic activity.

Despite the decrease in public expenditure on PES and ALMPs in 2020 in most Nordic countries, Denmark, Finland and Sweden still recorded significantly higher spending than OECD countries on average. However, strong capacity does not diminish the need for some level of expenditure increases and resource

reallocations during crisis periods, which may be necessary to ensure that the level and effectiveness of service does not deteriorate as unemployment and PES caseloads rise – as was the case during the pandemic.

1.3.2. Strong digitalisation enabled Nordic PES to respond well to the capacity constraints placed on their services

During the pandemic Nordic PES were able to adapt their operations and human resource capacity quite smoothly by reallocating existing PES staff, temporarily boosting human resources via new hires and – in the case of Sweden – increasing use of external contracted service providers. By bolstering capacity in these ways, Nordic countries were able to ensure that those PES services and activities of particular importance during the crisis (including the administration of benefits, information services and client services) were adequately resourced to help meet augmented demand.

The use of digital services and tools also greatly assisted Nordic PES in responding to increased demand for services. This included the use of static or passive online tools such as chatbots (as employed by Iceland and Norway) to provide information to clients, while alleviating some of the pressure on PES staff. The high degree of digital PES offerings already in place before the pandemic greatly enabled a smooth transition to digital provision during the pandemic, particularly in areas where services could not be provided in traditional in-person ways due to public health restrictions (e.g. job-search support and counselling). Despite this, some shortcomings do exist in this area in the Nordic region. Firstly, Nordic PES do not have established monitoring and evaluation frameworks for digital tools, processes and services to ensure they provide value for money and to assess their impact on the provision of services to both jobseekers and employers. Secondly, when transitioning to digital service delivery during the pandemic, little consideration was given to those individuals and groups who may not benefit from or may not be able to access digital services (either due to a lack of digital skills or means of access).

1.3.3. Nordic PES enacted narrow changes to ALMPs, primarily focussing on measures already in place

Nordic PES took steps to change the design of their ALMP offerings, but overall, the role of ALMPs in the labour market policy response to the pandemic was smaller than on average across the OECD. In the early stages of the pandemic, ALMP activity was limited (due to public health restrictions) and largely focussed on moving job-search support and counselling services and moving training online. As the pandemic progressed and restrictions were gradually eased, Nordic countries began to gradually increase ALMP activity.

Overall, the number of actions taken by individual Nordic countries was limited – focussing only on some categories of ALMP provision and weighted heavily toward expanding or adapting on pre-existing initiatives, with newly introduced measures less prominent in the ALMP response. Common changes to ALMP offerings included steps to move job-search support and counselling services to online digital or remote provision. Several Nordic countries also utilised employment incentives to encourage the recruitment of unemployed jobseekers and to stimulate the demand for labour, with a mix of both new (Iceland and Norway) and existing measures (Denmark and Sweden) utilised. In addition, Finland, Iceland and Sweden altered existing supports to encourage entrepreneurship among jobseekers in response to the pandemic – making start-up incentives more prevalent in the Nordic ALMP response than on average across the OECD.

In general, changes to ALMPs initiated by the Nordic countries were primarily broad-based (for wide groups of jobseekers), with measures to assist vulnerable groups or proactively mitigate increases to long-term unemployment before they occurred much less common in the policy mix.

1.3.4. Social partners were highly involved in deliberations during the pandemic, despite formal roles in only two Nordic ALMP systems

Social partners, as representatives of workers and employers, often have a very good understanding of labour market trends and what is happening on the ground; information that is highly relevant to PES and ALMP systems. When comparing the involvement of Nordic social partners across policy areas, they are least involved in ALMPs than in unemployment benefits, JR schemes and skills policies – with formal roles in the ALMP systems of only Denmark and Iceland.

In deciding responses to the crisis in this area, Nordic countries in general made use of a wide variety of both new and pre-existing structures (such as committees, working groups and other fora for discussion) to bring together relevant stakeholders and expertise. Such structures to support dialogue with social partners were particularly prominent in Denmark and Iceland. However, those Nordic countries without formal roles for social partners in their ALMP systems still engaged with social partners to varying degrees during the crisis period, both on an ad-hoc basis as needed and through temporary working groups established during the emergency period. Therefore, despite no formal role in the ALMP systems of the majority of Nordic countries, social partners still had a voice in all Nordic countries during the COVID-19 pandemic. Overall, the existing relationships and high level of trust between social partners and the parties involved in Nordic ALMP systems (Ministries and PES) enabled smooth engagement during the crisis period.

1.3.5. Impact evaluations of ALMPs are not yet systematic in every Nordic country

Most Nordic countries have a relatively strong supporting infrastructure required to facilitate policy monitoring and evidence-based policy making, highlighted by various routine activities to link register data relevant for ALMPs (OECD, 2020^[71]). Nevertheless, some difficulties were seen in this area for several countries in the context of this project, when seeking up-to-date and detailed data on ALMP measures and supports utilised by Nordic PES during the pandemic period.

Having access to up-to-date data and engaging in systematic data exchange between relevant institutions is necessary to support the evaluation of ALMPs. This has paid off for several Nordic countries, with Denmark, Norway and Sweden in particular having a strong track record in undertaking these analyses. However, in Finland and Iceland, impact evaluations of ALMPs are generally not systematically undertaken, implying that these countries may be less well equipped than others to undertake counterfactual impact evaluations of PES services and ALMP measures introduced or utilised during the pandemic, in order to understand what worked and for whom during this crisis.

1.3.6. Based on lessons from the crisis, Nordic countries can take steps to further enhance their ALMP systems to promote inclusiveness and resilience

PES and ALMPs play a crucial role in connecting people with jobs. Furthermore, ALMPs can be of particular help in crisis times, as well as in addressing wider societal and economic challenges – including labour market shortages, the green and digital transitions and the labour market integration of vulnerable groups (including Ukrainian refugees in the context of the ongoing Russian aggression against Ukraine). Therefore, in enhancing the provision of employment services and their ALMP offerings and in learning from the crisis response, the following recommendations set out the key areas for action for Nordic ALMP systems.

Ensure the inclusion of vulnerable groups in the PES digitalisation journey

A significant positive development coming out of the COVID-19 pandemic for PES is the digital advancements that ensued and are likely to continue in the delivery of employment services. Nordic PES

must now work to ensure that digital employment services are accessible and inclusive. This consideration was largely lacking during the pandemic response, with steps to move job-search support and counselling to digital or remote delivery largely taking place across the board (i.e. for all jobseekers).

Therefore, Nordic PES must take proactive steps to ensure that no individuals or groups are left out or become disadvantaged as a result of increasingly digitalised services. This means making additional allowances and putting in place alternative services and modes of delivery, in order to ensure that vulnerable groups in particular receive supports and services through channels that are most effective for them, while also having consideration for those without means of access (internet or device) or sufficient digital skills (OECD, 2022^[8]). For example, in taking steps to modernise employment services, Australia implemented a new digital-first employment service model *Workforce Australia* in July 2022 (Department of Employment and Workplace Relations, 2022^[9]). Through this reform, jobseekers are assessed using a framework to help understand their individual needs (which includes a profiling tool) and are then referred to the appropriate services stream. Job-ready jobseekers are referred to *Workforce Australia Online* where they can access online tools and resources. While digital-first, the new model is not digital-only, with those individuals identified as needing additional support referred to a provider who can provide tailored supports.

Enhance the provision of individualised comprehensive ALMP supports for vulnerable groups

Measures explicitly targeting vulnerable groups – either new or changes to existing ones – were not as prevalent in the policy mix among Nordic countries during the COVID-19 pandemic. Going forward, a key priority for Nordic PES should be the provision of services and supports for vulnerable groups, addressing their individual needs.

The essential first steps of the PES in this area include the identification of people in need of additional support (including those not registered with the PES) and pro-active outreach efforts, as vulnerable groups are often less likely to reach out to the PES (or other relevant institutions) themselves (OECD, 2021^[10]). After establishing contact with vulnerable groups, it is necessary to quickly identify the most vulnerable and their needs (e.g. through the use of quantitative profiling tools) and to begin the provision of integrated and comprehensive support that is tailored to the needs of the individual and/or refer them to the relevant services in other institutions. These activities are enabled by efficient data exchange and co-operation with relevant institutions, policy areas and service providers to ensure comprehensive support. Furthermore, support to vulnerable groups must take place along the entire labour market integration pathway, with post-placement support an important step in supporting sustainable integration.

Make ALMP systems more flexible to changing labour market conditions

Nordic PES will need to further adapt their ALMP provision to help jobseekers cope with changing labour market demands. This is particularly prominent in the area of training, where PES should take proactive steps to equip jobseekers with the necessary skills in demand by employers and to prevent increases to long-term unemployment. Better linking ALMPs to prevailing labour market needs, including informing the design and procurement of training based on insights from skills anticipation activities, can assist in addressing ongoing labour shortages and longer-term labour market trends, such as the green and digital transition, as well as in promoting greater labour market resilience.

Strong relationships and engagement between PES and employers are greatly important in having responsive ALMP systems, including in promoting the flexibility to respond to regional differences and challenges. An interesting example of a measure established to alleviate labour shortages in the Nordic region, benefitting from close employer-PES engagement, is the Trøndelag model (*Trøndelagsmodellen*) in the Trøndelag region of Norway. A joint initiative between employers, education authorities and Norway's PES (NAV), the Trøndelag model has two main objectives: to promote labour market integration and provide much-needed labour to companies facing shortages (NAV, 2022^[11]). The model seeks to address

these labour shortages faced by employers in the region by placing jobseekers with employers needing skilled labour and assisting them to pursue an apprenticeship qualification, while also providing tailor-made support, access to other education or training if needed and ongoing follow-up support.

Enhance the use of linked administrative data to improve the targeting and design of ALMPs

Several Nordic countries routinely link register data relevant to ALMP systems. Access to high quality and timely data, including from systematic data exchange with relevant institutions, is central to the provision of effective employment services. This is of heightened importance during crisis periods, such as during the COVID-19 pandemic, and in face of other ongoing labour market challenges.

Leveraging the already rich data and associated technical infrastructure in many Nordic countries, further steps could be taken to improve the exchange and linking of data from different institutions in the areas of employment, social, health and education services (including from municipalities and private providers), while taking into account the necessary data protection requirements. Such administrative data can help Nordic PES to better identify the people in need of their services, understand their barriers to employment and inform the design of appropriate individualised pathways for labour market inclusion. An international example of good practice in this area is seen in Estonia with its Youth Guarantee Support System. This system, established in 2018, combines data from nine input registers and allows case managers to map young NEETs (persons not in education, employment, or training) in municipalities, reach out to them and – where needed – commence case management and the provision of cross-sectoral supports (Estonian Social Insurance Board, 2022^[12]).

Strengthen the monitoring and evaluation of ALMPs and conduct evaluations of digital services and tools

Strengthening the ALMP evaluation capacity and activity is crucially important for Nordic countries, particularly given the comparatively high ALMP spending in most Nordic countries. Such evidence-informed policy making would allow Nordic countries ensure that they are achieving value for money. Denmark, Norway and Sweden link administrative data for the specific purpose of conducting impact evaluations of ALMPs. Nonetheless, there remains room for improvement across the region – including strengthening existing monitoring and evaluation frameworks and making counterfactual impact evaluations of ALMPs systematic in those countries where they currently are not.³ Furthermore, Nordic countries should actively work to address the challenges they face in linking data for evaluation purposes, including data privacy issues, time-lags in the release of administrative data and insufficient financial/human resources devoted to work in this area (OECD, 2020^[7]).

The creation of tools or platforms to pool relevant data can be particularly beneficial in enabling such impact evaluations, with a prominent example being the Labour Market Program Data Platform (LMPDP) in Canada (OECD, 2022^[13]). This platform which brings a wide range of data relevant to ALMPs (including data from the Canada Revenue Agency to capture employment outcomes), culminating in a comprehensive analysis platform that ensures efficient use of resources (data does not need to be reworked for each new project or piece of analysis), consistency across evaluations and builds institutional knowledge over time.

Furthermore, the scope of these evaluations should be expanded to include evaluations of digital services, tools and processes utilised by PES in the delivery of ALMPs, in order to ensure they are having their intended impacts in assisting PES staff and clients (OECD, 2022^[8]). Finally, it is critical to strengthen the impact of policy analysis on policy making pertaining to PES and ALMPs, in order to ensure that the insights gained are used to inform contingency planning for future crises, strengthen offerings to clients and to improve (or bring to an end) those measures found to be ineffective.

1.4. Developing skills for the recovery

Nordic countries built on well-established and highly developed adult education and training systems in their pandemic response. Their adult learning systems provide diversified, integrated, and flexible learning opportunities, with high public funding and a strong reliance on public providers. Adult learning participation is consistently some of the highest in Europe.

1.4.1 Participation in adult learning fell during the pandemic but recovered quickly

As in most other European countries, Nordic countries experienced a drop in adult learning participation in 2020. This was generally followed by a strong rebound, as the pandemic and economic situation improved. Some Nordic countries, notably Finland, were able to withstand the effect of the crisis better than others and saw a relatively small drop in adult education and training participation, while others, notably Denmark, experienced substantial declines. In the case of Denmark, the pandemic exacerbated a decline in participation already seen before the pandemic and rates have not yet fully recovered to pre-pandemic levels. Drivers of this differentiated impact of the pandemic on participation levels across Nordic countries are difficult to disentangle, but likely include differences in life-long learning culture, in-built flexibility around mode and assessment of learning (or lack thereof), differences in the reliance of work-based versus school-based training, as well as the effectiveness of the different policy responses taken.

1.4.2 All Nordic countries took action in the area of skills during the pandemic

Skill policies were not core to the initial policy response to the COVID-19 pandemic across the Nordic region, when the focus was firmly on protecting jobs and securing incomes. Yet, enabling individuals to develop skills for the recovery quickly gained importance as the pandemic drew out. Some Nordic countries saw the crisis as a strategic opportunity to advance an agenda of upskilling and reskilling adults in the context of accelerating structural change. Others considered the crisis transitory and assumed that laid-off individuals would eventually return to jobs for which they already had the right skills. The extent to which reduced working hours and temporary layoffs were seen as an opportunity for adults to develop skills for the recovery varied across the Nordic region.

All Nordic countries implemented measures to stimulate the demand for and ensure the supply of training during the pandemic, although levels of activity and investment varied strongly. Making comparisons across the Nordic region, levels of activity in this policy area were arguably highest in Denmark and Finland and lowest in Sweden. Most measures implemented targeted individuals and education and training providers; measures addressed at enterprises were more limited than seen in other OECD countries. A notable exception is the Swedish competence initiative (*kompetensinsatser*), which compensated employers for training measures for staff on short-time work. Unsurprisingly then, the decrease in training participation of employed individuals was higher than the decrease in training participation of unemployed or inactive individuals in all countries but Finland.

1.4.3 Financial support was the policy-lever most frequently used

Most initiatives undertaken in Nordic countries in the context of the pandemic aimed to maintain or even increase the demand for training by individuals, primarily through the use of financial incentives. These typically came in the form of allowing unemployed and laid-off individuals to train while receiving benefits. There was remarkably limited policy action to address the situational and attitudinal barriers of individuals, such as through providing information and guidance, or helping them access training online. While evidence is scarce, policy makers across Nordic countries share the concern that, consequently, the pandemic response may have left behind those hardest to engage in education and training.

On the supply-side, much of the policy action focused on expanding the existing education and training offer to accommodate a presumed heightened demand by unemployed individuals and those temporarily laid-off. Again, financial support for education and training providers was the key policy-lever used. Several countries, including Denmark, Finland, Norway, and Sweden, took a forward-looking approach and strategically invested in the development of shorter, more labour market relevant education and training programmes.

Across the Nordic region, the shift to online learning was relatively smooth for individuals and providers, due to high degrees of digitalisation and digital skills present even prior to the pandemic. For some target groups, notably adults living in remote areas, as well as those with disabilities or other health issues, the shift to online learning may have opened access to learning. An exception was practical or work-based learning opportunities, for example in the context of adult vocational education and training, which were difficult to shift online. Some providers experimented with ways to bring practical experiences to students, through mobile workstations, videos, or virtual reality applications, albeit with limited scope and success. With some exceptions, e.g. Denmark, governments made no regulatory changes to move training online. One may also have expected some government measures to ensure the quality and certification of online learning but there is no evidence that this was a concern for policy makers in Nordic countries.

1.4.4 To tackle present and future skill shortages, Nordic countries should increase the agility, flexibility and effectiveness of their skill development systems

In all Nordic countries, the crisis hastened structural changes in the labour market, causing the emergence of significant skill shortages. The picture of shortages by sectors, occupations and skills varies across countries, but shortages in education, health, and care professions, as well as skilled craft workers with vocational qualifications, stand out across the region. Adult upskilling and reskilling will be key to addressing these structural changes in the medium to long-term and ensure the continued success of the Nordic model, alongside tackling health-related inactivity, other activation policies (including ALMPs), providing incentives for people to work for longer and targeted migration policies.

This will require Nordic adult education and training systems to become more agile, flexible and effective. Actions taken during the pandemic provide some lessons on how to make the necessary changes to move towards this vision. The following recommendations reflect these lessons, but also more general insights based on an assessment of the performance of Nordic adult education and training systems.

Improve the agility of skills assessment and anticipation systems

All Nordic countries have skill assessment and anticipation (SAA) exercises that generate evidence on the current and future skill needs of the labour market (skill demand) and available skills in the population (skill supply) (OECD, 2016^[14]). Information from these exercises may be used in the planning of employment, education and training and migration policies. Yet, the pace of structural change and the emergence of new policy priorities – such as climate mitigation policies – warrant a review of these exercises. It will be critical to make SAA exercises more agile, that is to enable them to react quickly to changing circumstances and priorities and to produce information that can be used to inform policy decisions in real-time. Currently, the process of identifying skill needs and taking the relevant policy action is lengthy in most countries. Denmark, for example, works with 12-month timeframes from the identification of gaps to the set-up of new (short) courses. According to some stakeholders, this should ideally be reduced to three months.

To accommodate the demand for more timely SAA information, Nordic countries should make use of latest methodologies and data sources. This includes big data, which are used by a growing number of OECD countries to gain a more timely and granular picture of skill demand and supply. In the United Kingdom, for example, the Department of Business, Energy and Industrial Strategy (BEIS) uses data from Lightcast to gain monthly insights about the increase of “clean growth jobs”. Nordic countries

should also institutionalise mechanisms that translate the information produced into policy action, e.g. the development of new training offers or adaptation of curricula, where they don't exist already.

Increase the flexibility of learning pathways

Adult learning participation across the Nordic region is generally high. Yet, participation across different socio-economic groups is uneven and many adults face multiple, multi-layered and interconnected barriers to taking up learning opportunities (OECD, 2019^[15]). To enable more adults to participate in learning, adult learning systems must provide flexible learning pathways through good practice tools such as the recognition of prior learning, partial qualifications, modular learning opportunities and micro-credentials.

Different Nordic countries already implement these tools to different extents and lessons can be learnt from each other. Denmark, for example, offers exceptional flexibility with regards to combining modules of different learning provision into tailor-made qualifications (Desjardins, 2017^[16]). Finland has a particularly well-developed vocational education and training system that is fully modularised and ensures that existing skills are recognised prior to starting an initial or continuing vocational education and training programme (Cedefop, 2019^[17]). Some Nordic countries, however, should review their current learning systems for adults with the view to making them less rigid by breaking down barriers between formal, non-formal and informal learning.

As learning pathways become more flexible, they also become more complex for individuals to navigate, which in turn increases the need for high-quality guidance services. Nordic countries should examine their existing offers and ensure that they provide high-quality career and educational guidance for different target groups, including wrap-around support for adults with higher support needs. In addition, increasing complexity will warrant the use of digital solutions to streamline information on existing learning opportunities and (financial) support options.

Update regulatory frameworks

The COVID-19 pandemic had a unique impact in that it shifted much of the provision and assessment of learning (temporarily) online. Across the Nordic region, the move towards online learning was comparatively smooth due to high levels of digitalisation of education and training providers and digital skills of the adult population. Some countries, however, found that this change in mode of delivery required regulatory changes, as existing regulations offered limited flexibility regarding the places and modes of learning and assessment.

In light of this, Nordic countries should consider updating their regulatory frameworks further and making them agnostic about the place and mode of learning and assessment, where this is not already the case. This would not only ready adult learning systems for future similar crises but could also facilitate the flexible learning pathways described above. Systems that are agnostic about the place and mode of learning, such as the Finnish vocational education and training system, tend to be more advanced when it comes to the recognition of prior learning amongst others. To safe-guard against undesirable effects, including a lack of work-based elements in vocational education and training, education and training providers should receive guidance on the appropriate shares of different places and modes of learning. Providing such soft guidance may be sufficient to ensure compliance in the trust-based Nordic adult education and training systems, while allowing for flexibility in case of future pandemics or other emergencies.

Concerning online learning, Nordic countries may consider assessing the cost-effectiveness of the currently decentralised provision of online learning, e.g. every education and training provider developing their own online learning offer, and may want to identify centres of excellence responsible for developing online content on certain topics.

Institutionalise governance structures

Social partners traditionally play key a role in shaping skill policy across the Nordic region, although to different extent across countries. Their role may include negotiating agreements, managing, and funding programs, participating in decision-making, advising policy and/or raising voice and informing their members and the public.

The role of social partners in shaping skill policy increased in the context of the pandemic. Social partners were regularly consulted by the relevant public authorities on regulatory and legislative issues, frequently in newly established fora of exchange. In some Nordic countries, the pandemic also provided new impetus for tripartite and bilateral negotiations. Some stakeholders see the involvement of social partners in the early stages of decision-making as key to the swift implementation of measures, as governments were able to secure buy-in early in the process. However, these new formats of consultation were only temporary in some cases. In Iceland, for example, the Co-ordination Committee for Employment and Education involved the relevant ministries, social partners, PES, education and training providers, as well as student representatives. It concluded with a report in May/June 2020 and was dissolved soon thereafter.

Where this is not already the case, Nordic countries should consider institutionalising governance structures for skills policy which include social partner representatives, such as co-ordination committees, high-level groups or other consultative bodies. While such structures can be cumbersome when it comes to reaching consensus, the experience from the pandemic shows that they may ultimately improve the agility of the system by building trust between key actors in the skill policy arena.

Key policy recommendations

The COVID-19 crisis has clearly shown the importance of adjusting income support policies and doing so in a timely manner. In light of this experience, and to enhance resilience to future crises, Nordic countries could consider the following:

Ensure a more inclusive income support for the unemployed during crises by adjusting UB systems to changing labour market circumstances. These changes could be introduced through rules triggering automatic adjustments or by establishing agile processes involving governments and social partners to implement any changes as necessary.

Introduce rules or agile processes to adjust key policy parameters (e.g. cost to firms, duration of subsidies etc.) to ensure that JR schemes are mainly used in times of crisis and phased out rapidly when the economy recovers.

Increase the targeting of JR schemes to jobs at risk through firms co-financing of hours not worked in countries where this does not currently happen.

To attenuate the risk of penalising firms that face particularly severe liquidity constraints, **consider the adoption of experience rating systems for the co-financing of hours subsidised by JR schemes**, whereby firms reimburse part of the subsidy once they leave the scheme.

- **Leverage administrative data to evaluate the merits of different design features of JR schemes** and inform their design to enhance labour market resilience to future crises

Nordic PES should consider the following recommendations in the area of ALMPs to foster more inclusive and resilient labour markets going forward:

- Continue to build on the strong digital foundation in the region, while taking additional steps to **ensure the inclusion of vulnerable groups in the PES digitalisation journey.**
- **Enhance the provision of individualised comprehensive ALMP supports for vulnerable groups** to support more inclusive labour markets.
- **Make ALMP systems more flexible to changing labour market conditions**, including through greater co-operation with employers.
- **Enhance the use of linked administrative data to improve the targeting and design of ALMPs**, including by strengthening systematic data exchange with relevant institutions.
- **Strengthen the monitoring and evaluation of ALMPs and conduct evaluations of digital services and tools.** The impact of policy analysis on policy making must also be bolstered.

Nordic countries should consider increasing the agility, flexibility, and effectiveness of their **skill development systems**. Specific recommendations to this end include:

- **Improve the agility of skill assessment and anticipation systems** to produce granular information that can be used to inform policy decisions in real-time.
- **Increase the flexibility of learning pathways** through tools such as the recognition of prior learning, partial qualifications, modular learning opportunities and micro-credentials, where they do not exist. This should be accompanied by high-quality guidance services.
- **Update regulatory frameworks for adult learning**, making them agnostic about the place and mode of learning and assessment.
- **Institutionalise governance structures** that involve social partners to improve the agility of the system through building trust between key actors in the skill policy arena.

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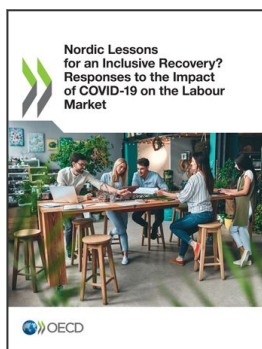
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Notes

¹ As discussed in more detail in Chapter 3, in Norway, Finland and Iceland workers on job retention schemes also receive Unemployment Benefits. The data for Norway do not allow distinguishing between jobless people who receive UBs and people on job retention schemes that receive the same benefit. For this reason, the analysis on Unemployment Benefit claims is limited to the other four Nordic countries.

² Discussions of PES and ALMP expenditure do not include Iceland, as they do not participate in the OECD/EC Labour Market Programme Database.

³ Counterfactual impact evaluations seek to establish, by employing controlled experiments and/or econometric techniques, the difference in outcomes for individuals who participated or benefitted in a programme and those that did not.



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