2 Fostering a strong labour market to support the recovery and sustain growth

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Switzerland has a well-functioning labour market with low unemployment, a highly skilled workforce and well-paid jobs. It has proved resilient during the COVID-19 crisis, helped by extensive government support to employment and incomes. As activity recovers, the authorities face the challenge of adapting support measures to avoid hindering job reallocation and productivity growth while ensuring adequate support to vulnerable firms and workers. The pandemic has also reinforced certain pre-existing challenges. The already sizeable gender pay gap risks widening, and older workers face a higher risk of long-term unemployment. Making the labour market more inclusive would help the recovery and raise productivity. Switzerland would benefit from bringing under-represented groups more effectively into the labour market. Raising skills and lowering inequities in education and training will also be essential to facilitate job transitions and ensure that workers and firms benefit from technological change and the digital transformation.

Introduction

Switzerland boasts a well-functioning labour market, with low unemployment, high participation and well-paid jobs. The legislation allows for high flexibility in hiring and dismissing workers and the workforce is highly skilled, which makes it well placed to adapt to economic shocks as well as to structural shifts due to technological change. Still, population ageing constrains growth in labour utilisation and the country faces high-skilled labour shortages.

Moreover, the COVID-19 pandemic represented an unprecedented challenge for the functioning of the Swiss labour market. Containment measures led to prolonged closures of many businesses, especially in the services sector, and temporary border closures and supply bottlenecks affected the manufacturing sector. Many companies faced a steep drop in revenues and uncertain prospects, resulting in a temporary oversupply of labour and pressures on unemployment, hours worked and incomes.

Swift and broad policy interventions to support workers and firms contributed to the remarkable resilience of the Swiss labour market. There was only a limited rise in unemployment and impact of the pandemic on participation remained low. Instead, the shock was reflected in an unprecedented number of workers on short-time working compensation scheme. Policy support also included loss-of-earnings compensation for self-employed workers and the provision of additional liquidity support for firms. Together, these schemes helped limit job losses and effectively sustained incomes of workers and households, preventing a rise in poverty and deprivation. In turn, the measures contributed to a rapid catch up in consumption and activity when pandemic restrictions were lifted.

As activity recovers, the Swiss authorities face the challenge of gradually adapting support measures to avoid hindering resource reallocation and future productivity growth, while ensuring adequate support to vulnerable firms and workers. A protracted and widespread use of job retention schemes bears the risk of supporting jobs that are no longer viable, slowing down growth. Policy needs to shift towards active labour market measures to facilitate job transitions and the reemployment of displaced workers. At the same time, remaining crisis-support measures need to become increasingly targeted, to ensure that adequate safety nets remain available to the most vulnerable and hard-hit workers.

The impact of the pandemic has also reinforced certain pre-existing challenges of the Swiss labour market. The already sizeable gender pay gap risks widening as women have been more likely to be put on the short-time working compensation scheme. Also, during the crisis, they took on more of the additional workload generated by childcare. Foreign workers also faced a higher risk of becoming displaced, since they disproportionally work in the most affected sectors. Older workers face an increased risk of long-term unemployment in the wake of the crisis, due to relatively greater difficulties in finding work once displaced. Moreover, low-skilled workers experienced a higher probability of job losses than more educated workers. Switzerland would benefit from bringing under-represented groups more effectively into the labour market, including by upskilling.

Before the crisis, the entry into the labour market of young people was remarkably efficient. Through its focus on vocational education and training (VET) the Swiss education system effectively integrates young people into the labour market. Nevertheless, disruptions in skills provision caused by temporary closure of schools, training centres or businesses as well as by the widespread use of teleworking risk impacting youth prospects durably, in particular for the disadvantaged students.

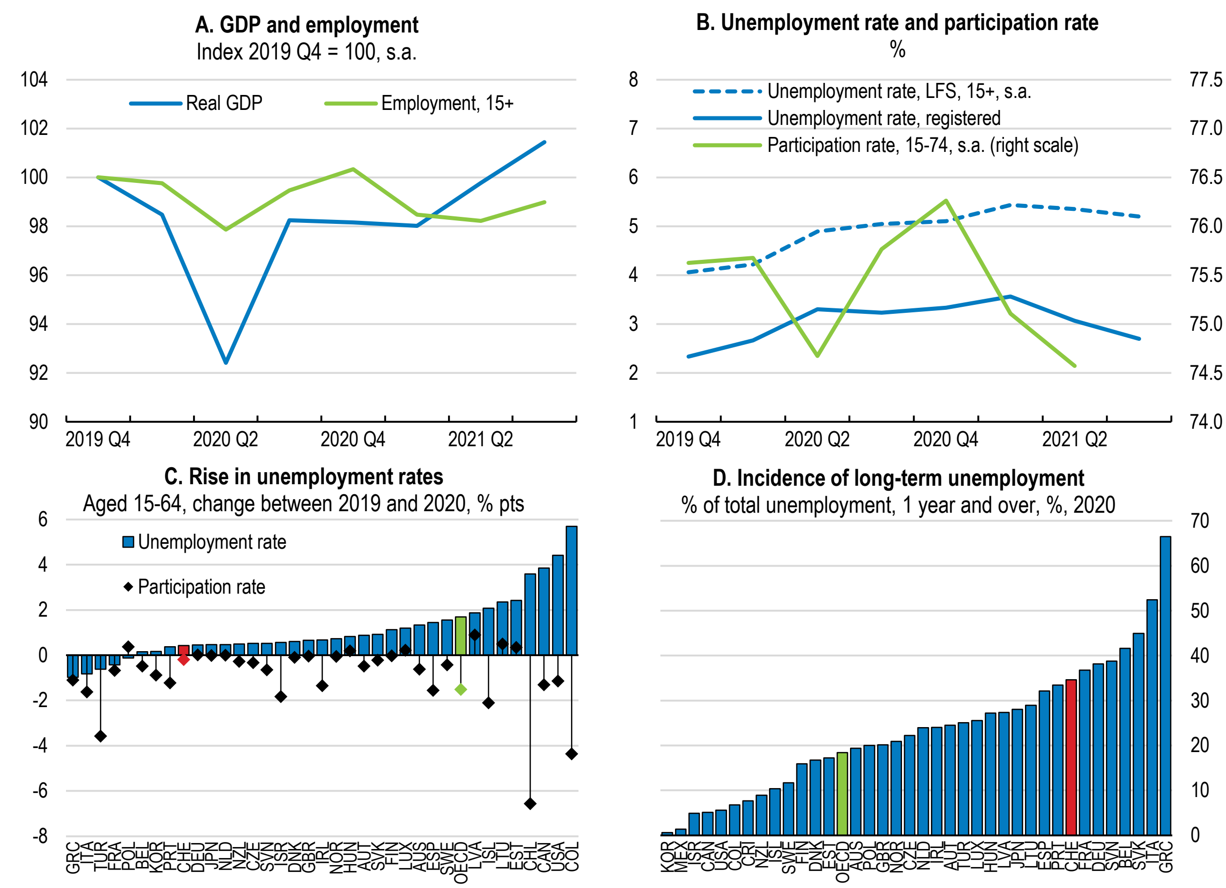
The chapter is structured as follows. The next section describes the impact of the pandemic on the labour market and identifies its main strengths and weaknesses, building on the insights of the new OECD Jobs Strategy. The following section discusses policy options to foster job reallocation while providing adequate support to vulnerable workers. Policies to encourage more workers to actively participate in the labour force and to improve the inclusiveness of the Swiss labour market are discussed in the last section.

High resilience and substantial government support shielded the labour market during the crisis

Adequate policies effectively supported the labour market during the crisis

Switzerland's labour market is well functioning and has proved resilient in the face of the COVID-19 crisis (Figure 2.1, Panel A). The harmonised unemployment rate increased to 5.1% in 2020Q4, one percentage point higher than in the fourth quarter of 2019 (Figure 2.1, Panel B). In comparison, the unemployment rate increased by 1.7 percentage points on average in the OECD economies over the same period (Figure 2.1, panel C). It has slightly declined from the beginning of 2021 but remains higher than its pre-pandemic level, while the registered unemployment rate was, by October 2021, back to its December 2019 level. However, the incidence of long-term unemployment, at 35% of total unemployment in 2020, is relatively high (Figure 2.1, Panel D), and among the unemployed registered at a public placement office, the share of the unemployed who had been out of work for more than a year rose from 11½ per cent at end-2019 to 25½ percent by December 2021 according to the State Secretariat for Economic Affairs data. The extension of unemployment benefits duration during lockdown phases of the pandemic may partly explain this sharp increase as the exhaustion of the maximum benefit durations was avoided or postponed for job seekers with already longer unemployment spells.

Figure 2.1. The labour market has shown resilience, helped by swift policy support



Source: OECD Economic Outlook database; OECD Short-Term Labour Market Statistics; SECO.

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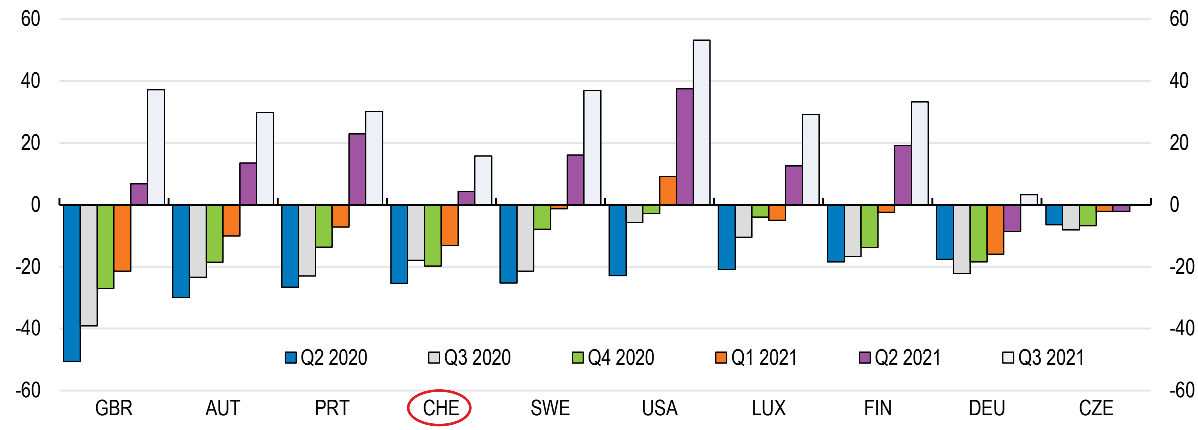
Total employment declined slightly during the first two waves of the pandemic but caught up as the economy recovered. The participation rate has declined since the beginning of 2021 but remains one of the highest in the OECD. Moreover, during the peak of the crisis the stock of vacancies declined less than in a number of other OECD economies (Figure 2.2). Still, in the first quarter of 2021, it remained 13% below the pre-crisis level but the number of vacancies quickly rebounded in the second and third quarters with the lifting of restrictions.

Figure 2.2. The number of job vacancies exceeded their pre-crisis level in the second quarter of 2021

Percentage change in the stock of job vacancies since January 2020, seasonally adjusted



Source: OECD Short-Term Labour Force Statistics; SFO.

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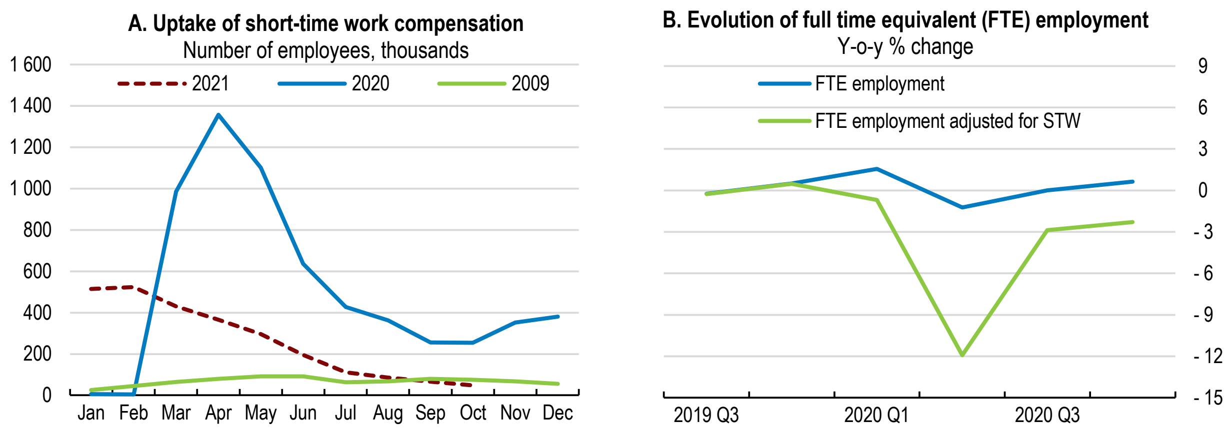
Much of the impact of the crisis was reflected in an unprecedented uptake of the short time working compensation (STWC) scheme. In April 2020, at the peak of the crisis, STWC was received by 1.36 million employees, about a quarter of the active population, 14 times more than at the peak of the global financial crisis (Figure 2.3, panel A). While full-time employment only decreased by 1.2% year-on-year in the second quarter of 2020, an estimated drop in full-time employment that takes into account the average reduction in working time associated with the use of the STWC scheme stands at a staggering 11.9% (Figure 2.3, Panel B). The number of beneficiaries declined swiftly during the third quarter of 2020 to about 254 thousand people in October. However, at the turn of the year and in early 2021, when the government started reintroducing containment measures amid the second wave, the demand for the STWC scheme rose again, albeit to a lesser extent. Full-time employment in the fourth quarter of 2020 increased by 0.6% year-on year, but accounting for workers on the STWC scheme, it would have declined by 2.3%.

Swift action by the federal authorities to shorten and simplify the application process and extend its eligibility to fixed-term employment contracts, temporary workers and apprentices greatly facilitated the use of the STWC (see Box 2.1 and section 2). The uptake of the STWC scheme among temporary workers, although significantly less than among workers with permanent contracts, was sizable (Figure 2.4 and Box 2.2). This offered effective protection to the group of workers that is usually the first to be adversely affected during an economic downturn. Moreover, the widespread use of the scheme effectively helped support worker’s incomes, fostering a rapid rebound in consumption with the release of restrictions.

The Federal authorities also created a specific compensation scheme for self-employed workers whose activity was impacted by restrictions. The new instrument, temporary in nature, covered a gap in employment protection for the self-employed, who account for 14.4% of total employment but are not otherwise eligible for unemployment benefits. Total costs of self-employed compensation for loss of earnings amounted to 2 billion CHF in 2020, 0.3% of GDP. Moreover, unemployment insurance benefits were temporarily extended by up to six months between March and August 2020 and by up to three months between March and May 2021. Both the STWC exceptional provisions and the compensation for loss of earnings for the self-employed were extended to 2021 with social welfare expenditures related to COVID-19 (including expenses for the STWC, compensations for loss of earnings and unemployment insurance) expected to amount to CHF 7 billion in 2021, about 1% of 2020 GDP. In December 2021, most measures were further extended to the end of 2022.

Figure 2.3. The short-time working scheme significantly cushioned the impact of the pandemic on employment



Source: OECD Economic Outlook database; OECD Short-Term Labour Market Statistics; SECO; FSO; OECD calculations

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Box 2.1. Emergency support measures during the COVID-19 crisis

Since March 2020, the authorities have adopted various policy tools to shield workers and firms from the economic impact of the crisis.

- The *short-time working compensation (STWC) scheme* is the main instrument for bridging loss of work due to the crisis. Unemployment insurance (through which the scheme is administrated and funded) temporarily covers 80% of the loss of earnings attributable to the reduction in hours worked, capped at CHF 196 per day. In 2020, CHF 20.2 billion of additional funding was transferred to the unemployment insurance fund to cover the associated expenditures, of which CHF 10.8 billion (1.5% of GDP) was used. The STWC existed before the pandemic and firms experiencing a temporary downturn in activity could request it through the cantonal employment office. However, in March 2020, the application process was shortened and simplified, and the “waiting period” (period of two or three days per month during which an employer had to cover the full cost of employees on STWC) was abolished. The coverage of the STWC was also extended to types of employees not eligible within the usual legal framework: those with fixed-term employment contracts, temporary workers and apprentices (these exclusions occur in the usual framework because fixed-term employment contracts cannot be terminated, temporary jobs are not considered as viable over the long run and because on-site presence is important for apprentices as work practice is part of the education). In addition, for low-income workers (earning less than CHF 3470 per month), the generosity of the compensation was raised in December 2020 to represent 100% of the loss of salaries (from 80%). Most of these measures were initially planned to expire by the end of August 2020, but were first extended into 2021 and later until the end of 2022.

- The *corona compensation for loss of earnings scheme* targets mainly the self-employed, directly or indirectly affected by the containment measures. It also provides daily compensation for employees and the self-employed who are in self-quarantine or need to stay at home to look after their children because of suspended child-care. In all cases, it amounts to 80% of pre-COVID crisis earnings, capped at CHF 196 per day. In 2020, the federal authorities allocated CHF 5.3 billion to the income compensation scheme, of which CHF 2.2 billion were effectively used. In December 2021, the scheme was extended until end-2022.

- Support to SMEs took the form of *federal government bridging credit guarantees* to SMEs, the "COVID-19 credit". The guarantees were issued for loans by private banks to help otherwise solvent companies cope with temporary liquidity issues. They covered 100% for the loans of up to CHF 500 000 and 85% for credits between CHF 500 000 and CHF 20 million. Banks in turn were able to access the needed liquidity for these loans at the SNB policy rate, via the SNB COVID-19 refinancing facility. CHF 40 billion worth of guarantees was made available. In practice, CHF 18 billion of loans were given out by banks in 2020. The period for the submission of applications for loans ended in July 2020. The COVID-19 credits were complemented by CHF 100 million in guarantees for start-ups.

-The *hardship clause* programme, implemented by cantons, was set up in December 2020 to bring additional support to firms affected by the restrictions. The programme provides loans, guarantees or grants to companies that were either closed by government measures for at least 40 days or, whose sales dropped by at least 40% over a 12-month period. Two thirds of the funding is provided by the Confederation and the rest by cantons. In addition, in order to support the hardest hit companies, the Federal Council has lifted the ceiling for grants to small and medium enterprises. It has also allowed the cantons to tweak the eligibility requirements of the programme to suit specific local needs, which the Federation will finance in case of additional costs. The programme was allotted CHF 8.2 billion for 2021. In December 2021, the legal basis for the scheme was extended until the end of 2022.

Support to the economy was made available through other channels as well. For example, additional sector-specific measures in the form of loans, grants or subsidies were introduced to support firms and workers in sports, culture, tourism and airline industries. Many cantons also provided additional support to firms in the hardest hit sectors.

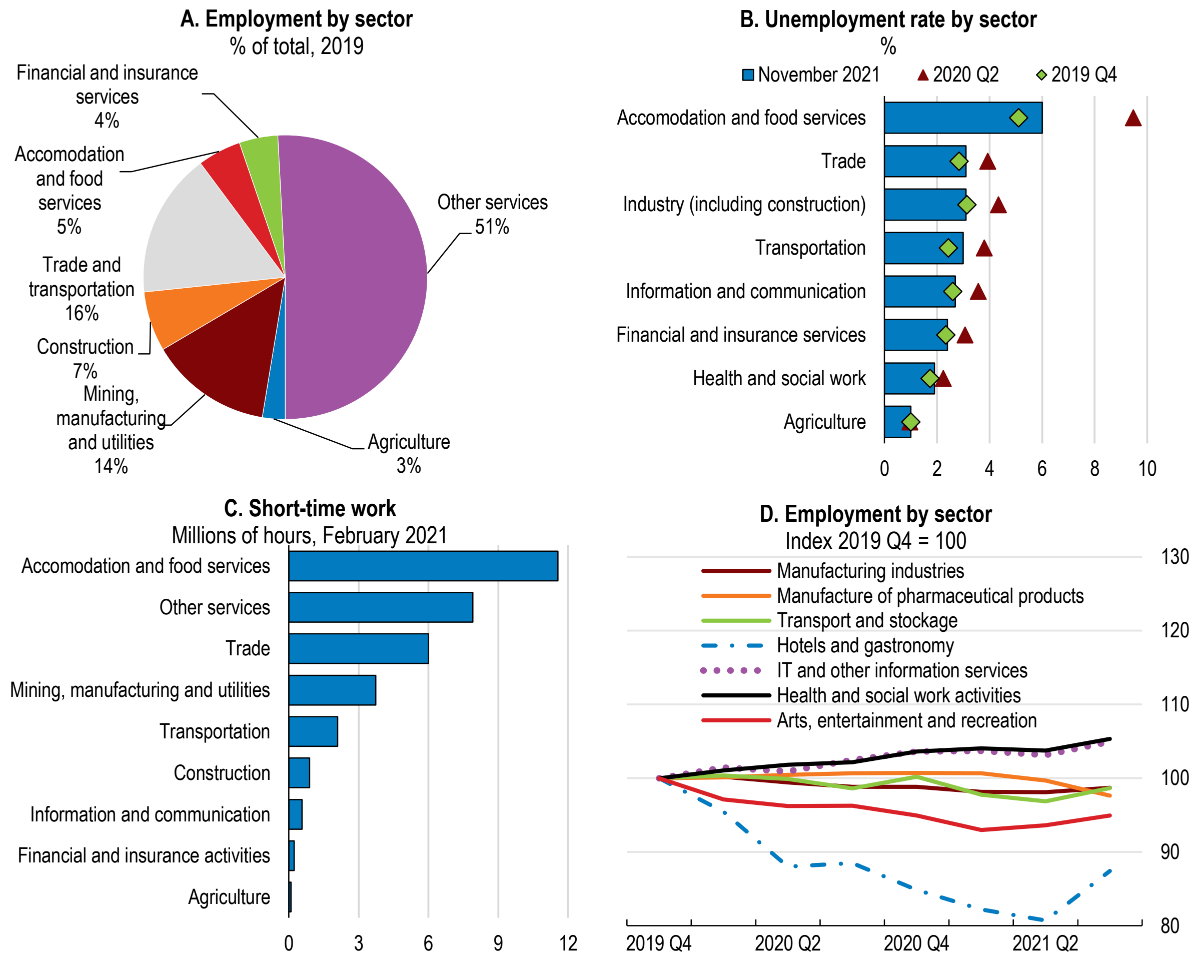
The impact of the crisis varied considerably across groups of workers and sectors

Labour market developments differed widely across sectors. The activity of businesses most exposed to the containment measures, requiring close contact between consumers and producers, large crowds, or cross-border travel, were most severely affected.

The hospitality industry, which represents 5% of total employment, has been hit especially hard. Among all sectors, it displayed the highest losses in full-time equivalent employment and the highest recourse to the short-time work compensation scheme (Figure 2.4). In April 2020, about ⅔ of its 2019 workforce was receiving short-time work compensation, about 30% in November 2020, and about 45% in March 2021. The number of unemployed workers in the sector roughly doubled between January 2020 and January 2021 and according to surveys, in May, a wide majority of businesses considered further staff cuts in the coming months (KOF, 2021a, and 2021b). Employment prospects only improved during the summer 2021 when many restrictions were lifted. In July 2021, the share of the 2019 workforce receiving STWC fell to about 6%. Lasting restrictions and subdued demand severely affected the employment outlook in many other service activities, notably in art and recreation and transport. In the manufacturing sector, the machine, watch and metal industries faced a large drop in demand in 2020 (Arni, 2020), but saw a more rapid rebound in 2021.

Some sectors, on the other hand, experienced a much lower impact of the pandemic or even benefitted from it and hired new staff during the crisis. For sectors that could operate effectively with remote work, or that could effectively offer their products and services online, the challenges of the pandemic turned into an opportunity. Employment in the IT sector, in particular, remained higher than before the crisis throughout 2020. In the context of the pandemic, employment in the health care and social services and in the pharmaceutical industry displayed a similar pattern (Figure 2.4). Employment was also resilient in public administration and education and job postings data highlighted a normalisation of hiring behaviour starting in the summer 2020 in the construction and financial services sectors (X28-Novalytica, 2021).

Figure 2.4. The impact of containment measures differed across sectors



Source: OECD National Accounts Statistics; State Secretariat for Economic Affairs (SECO); Federal Statistical Office (FSO).

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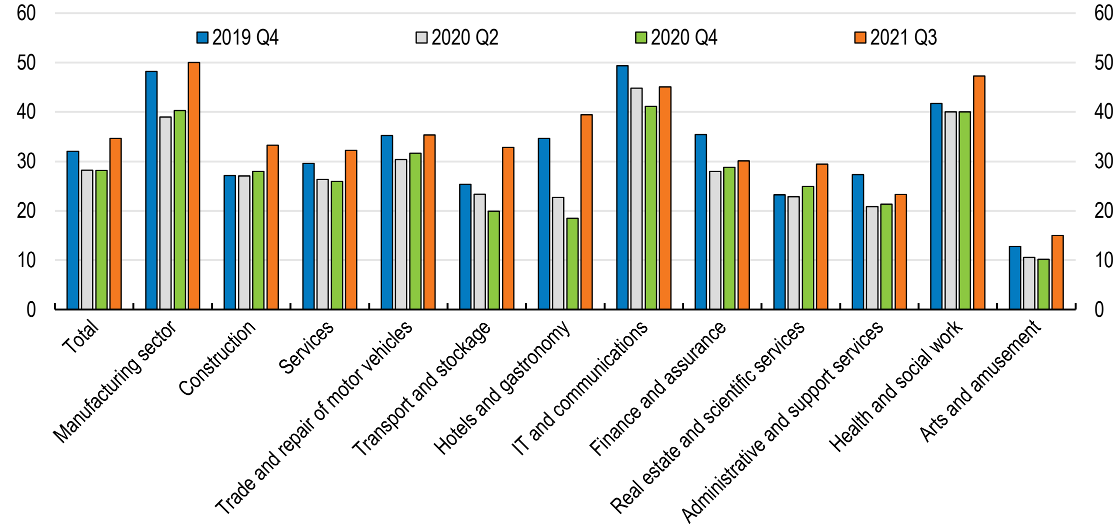
Shortages in skilled labour, which were sizable in some sectors before the pandemic, eased with the drop in activity (Figure 2.5). However, the reported difficulties in hiring qualified workers remained elevated in the manufacturing, IT and communication, and health and social work sectors. Moreover these difficulties significantly increased with the economic recovery in the second and third quarters of 2021 to stand close to, or above, their pre-crisis level.

In spite of effective policy support, many households saw their incomes drop. Relatively high resilience in aggregate masks a large heterogeneity across groups of workers. The KOF Swiss Economic Institute (KOF, 2021d) reports that the pandemic widened economic and health disparities, impacting disproportionately low-income households. While the rise in the unemployment rate did not differ significantly between men and women, or across age groups, foreign-born workers experienced a larger increase in their already higher unemployment rate, compared to Swiss-born workers. Moreover, using survey data, Hijzen and Salvatori (forthcoming) show that uptake of the STWC was more frequent for women than men. They also point to a larger use of the STWC schemes for low- to middle-skilled workers and a larger probability to lose jobs for the low-skilled and workers on temporary contracts, suggesting that the crisis had a significantly stronger impact at the lower end of the wage distribution (Figure 2.6 and Box 2.2).

Figure 2.5. Skilled labour shortages temporarily eased during the pandemic

Difficulties in recruiting, qualified personnel found with difficulty or not found at all, %



Source: Federal Statistical Office (FSO).

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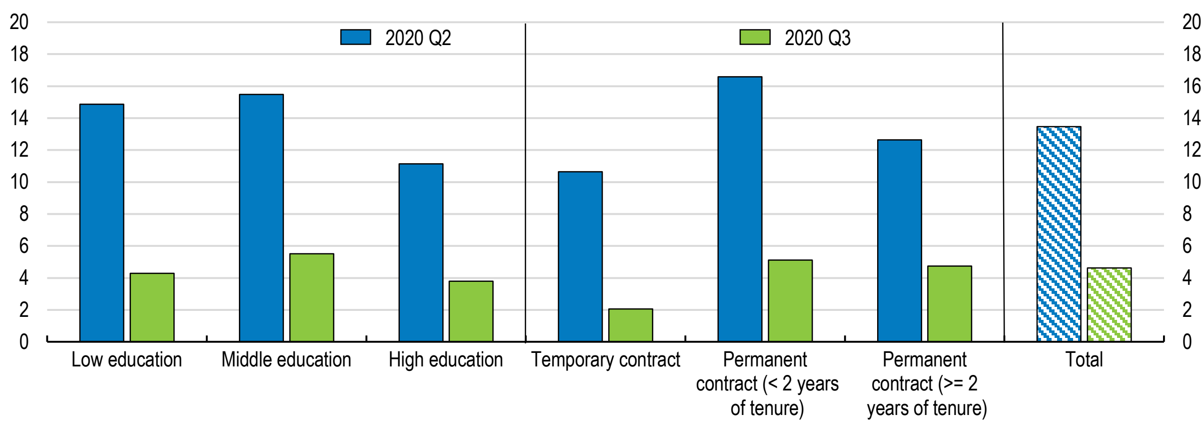
Figure 2.6. Short time work use differed across groups

Percentage of dependent employees



Source: OECD Employment Outlook 2021.

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Box 2.2. The Swiss Short Time Work scheme effectively protected jobs in 2020

The overall resilience of the Swiss labour market is in large part due to the use of its short-time work compensation (STWC) scheme that helped to keep the risk of job loss for employees at bay. Hijzen and Salvatori (forthcoming) use longitudinal data from the Swiss Labour Force Survey to study labour market transitions during the year 2020. Two key transition probabilities are calculated between consecutive quarters for different groups of employees since the onset of the Covid-19 crisis: (i) the probability of moving to non-employment, and (ii) the probability of being placed on STW. The results show that, as the crisis hit and economic activity fell dramatically, the probability for an employee to be placed on STW jumped from about 1% before the crisis to the unprecedented level of 13% in the second quarter of 2021.

As a result, the risk of job loss for an employee remained subdued at 4% - only 1 percentage point higher than in the five years before the crisis.

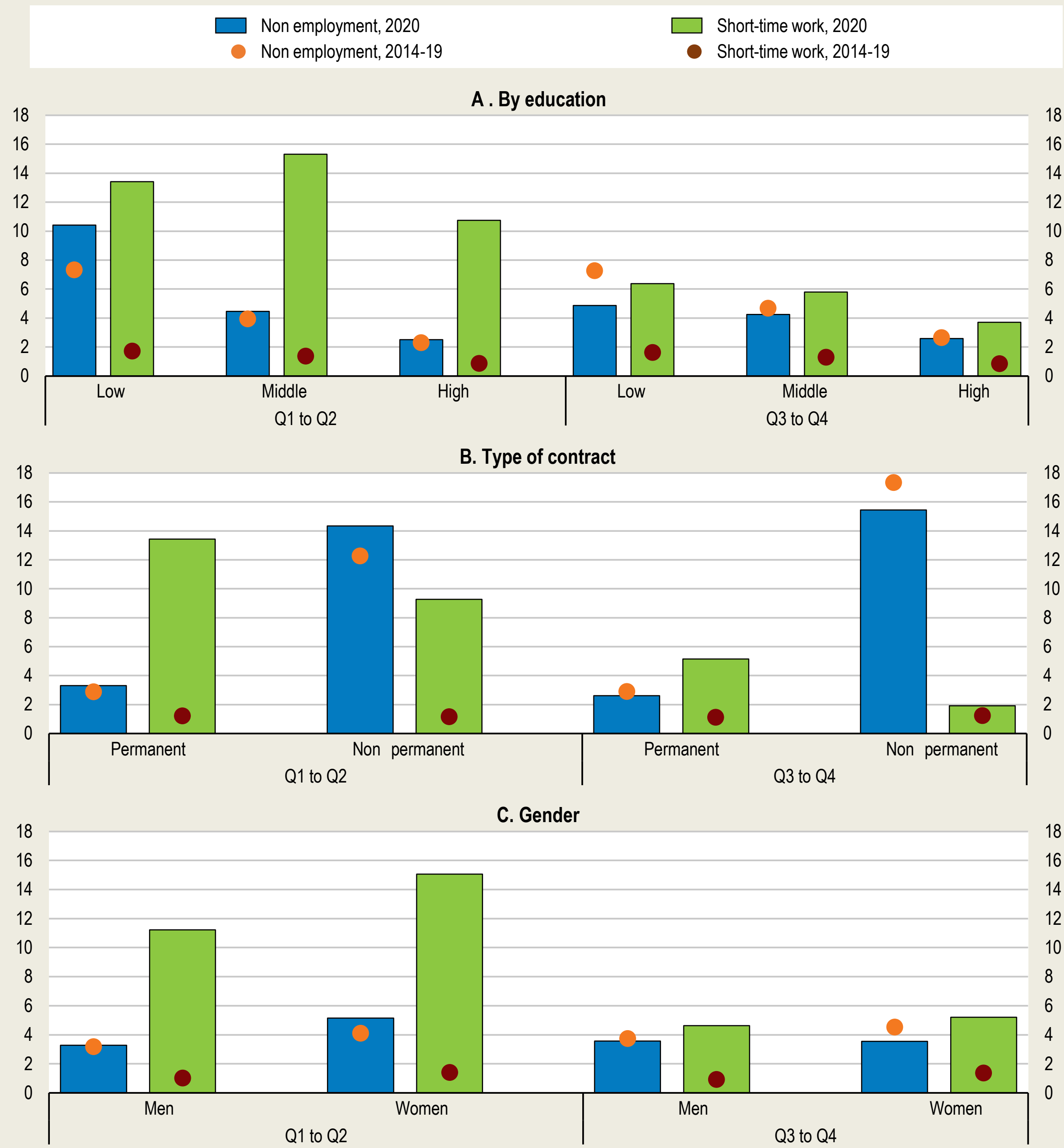
The analysis provides some evidence that the scheme might have been somewhat less effective in preserving the jobs of the low educated and workers on temporary contracts during the first quarter of the crisis. In Q2 2020, these groups saw a larger increase in the risk of losing their employment compared to other groups, but not a higher probability of being placed on STWC scheme. For example, the probability that a low educated worker lost his or her employment between Q1 and Q2 was 10% - an increase of 3 percentage points compared to the pre-crisis period much larger than that seen for mid educated workers (Figure 2.7). By contrast, the low educated were less likely to be placed on STWC scheme than mid-educated workers (13% vs 15%). However, there is no indication this continued to be the case in subsequent quarters. The temporary removal of the waiting period and the extension of eligibility to workers on temporary contracts may have been particularly important for encouraging the use of short-time work for young and low-educated workers.

While women, part-time, young and older workers were disproportionately affected by the crisis at first, there is no indication of discriminatory use of the STWC scheme to preserve jobs across gender, part-time status and age groups. Women, for instance, saw a larger increase in the risk of job loss than men during the first wave of the pandemic, but this was due to the type of jobs they hold. Indeed, once occupation, contract type and industry are controlled for, the impact of being female on job loss becomes statistically insignificant. At the same time, women were also more likely to be on the STWC (15% vs 11%) (Panel C of Figure 2.7) independently of the type of jobs they hold. This suggests that they were initially hit harder than men by the crisis but also that the STWC scheme protected them from unemployment. In later quarters, both women and men saw a reduction in the risk of job loss compared to the recent past. By the end of the year, the difference in the risk of job loss became smaller than in the pre-crisis period – with both women and men facing a risk of job loss of around 3.5% between Q3 and Q4. Similarly, the difference in the probability of STWC between women and men became smaller over time, even though women remained slightly more likely to be on the scheme than men by the end of 2020 (5.2% vs 4.6%).

Overall, the design of the Swiss short-time work scheme complemented with the additional measures to boost its use appears to have been fit for purpose. Going forward, there is a growing risk that jobs that remain on STWC support are no longer viable, as already witnessed by the growing fraction of jobs supported by STWC that are eventually terminated.

Figure 2.7. Probability that an employee moves to non-employment or short-time work between consecutive quarters

Percentages



Source: Hijzen and Salvatori (forthcoming)

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The legacy of the crisis could weigh on the labour market

Based on the OECD Job strategy dashboard on the overall performance of the labour market (see Box 2.3, OECD, 2108a and 2018b), Switzerland is among the top-performing countries on most measures (Figure 2.8), and above the OECD average in all categories but one (the gender labour income gap). The employment rate is high, unemployment and labour underutilisation are low. Workers receive comparatively high wages and labour market insecurity is low. Moreover, there is a relatively high level of equality in incomes and opportunities. However, the gender labour income gap is persistently high and some disadvantaged groups face barriers in the labour market.

Box 2.3. Implementing the OECD Jobs Strategy during the COVID-19 crisis and beyond

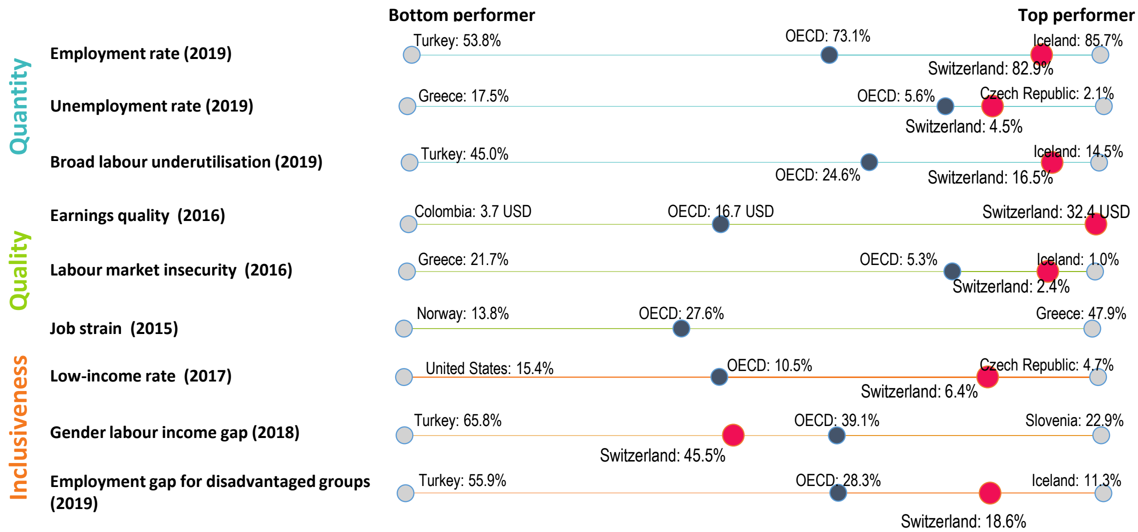
The objective of the OECD Jobs Strategy is to support policy-makers in member and partner countries with achieving good labour market outcomes, including during times of social and economic upheaval such as those currently experienced by most OECD countries. The Jobs Strategy goes beyond job quantity and considers job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability for good economic and labour market performance in a changing world of work. Given its emphasis on resilience and adaptability, the Jobs Strategy is particularly relevant in present context as the COVID-19 crisis is testing the resilience of labour markets and has accelerated some of the pre-existing structural trends to which labour markets will have to adapt.

The OECD actively supports countries with the implementation of the OECD Jobs Strategy through the identification of country-specific policy priorities and recommendations. This is done through the preparation of special Jobs Strategy chapters in the OECD Economic Surveys as well as more analytical background papers on the implementation of the OECD Jobs Strategy in specific countries. In the case of Switzerland, the special chapter is supported by additional analytical work on the impact of COVID-19 crisis on different socio-economic groups and the role of job retention schemes. The implementation process will be concluded with a synthesis report that will draw lessons from the country reviews and highlight good practices across the full range of policy tools identified by the OECD Jobs Strategy.

For further details see http://www.oecd.org/employment/jobs-strategy/.

Figure 2.8. The Swiss labour market performs well in international comparison

Dashboard of the labour market according to the OECD Jobs Strategy



Note: Employment rate: share of working-age population (20 to 64) in employment (%). Unemployment rate: Share of persons in the labour force (15-64 years) in unemployment (%). Broad labour underutilisation: share of inactive, unemployed or involuntary part-timers (15 to 64) in the population (%), excluding youth (15 to 29) in education and not in employment. Earnings quality: gross hourly earnings in US dollars adjusted for inequality. Labour market insecurity: expected monetary loss associated with becoming and staying unemployed as a share of previous earnings. Job strain: share of workers in jobs in which there typically exists a high level of professional demand and insufficient resources to meet that demand. Low income rate: share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: difference between average annual earnings of men and women divided by average earnings of men (%). Employment gap for disadvantaged groups: average employment gap between prime-age male workers and five disadvantaged groups (women with children, young people not in education or full-time training, workers aged between 55 and 64, people born abroad, people living with disabilities), as a percentage of the employment rate for prime-age male workers.
Source: OECD calculations based on statistics for 2019 or the last available year and various sources.

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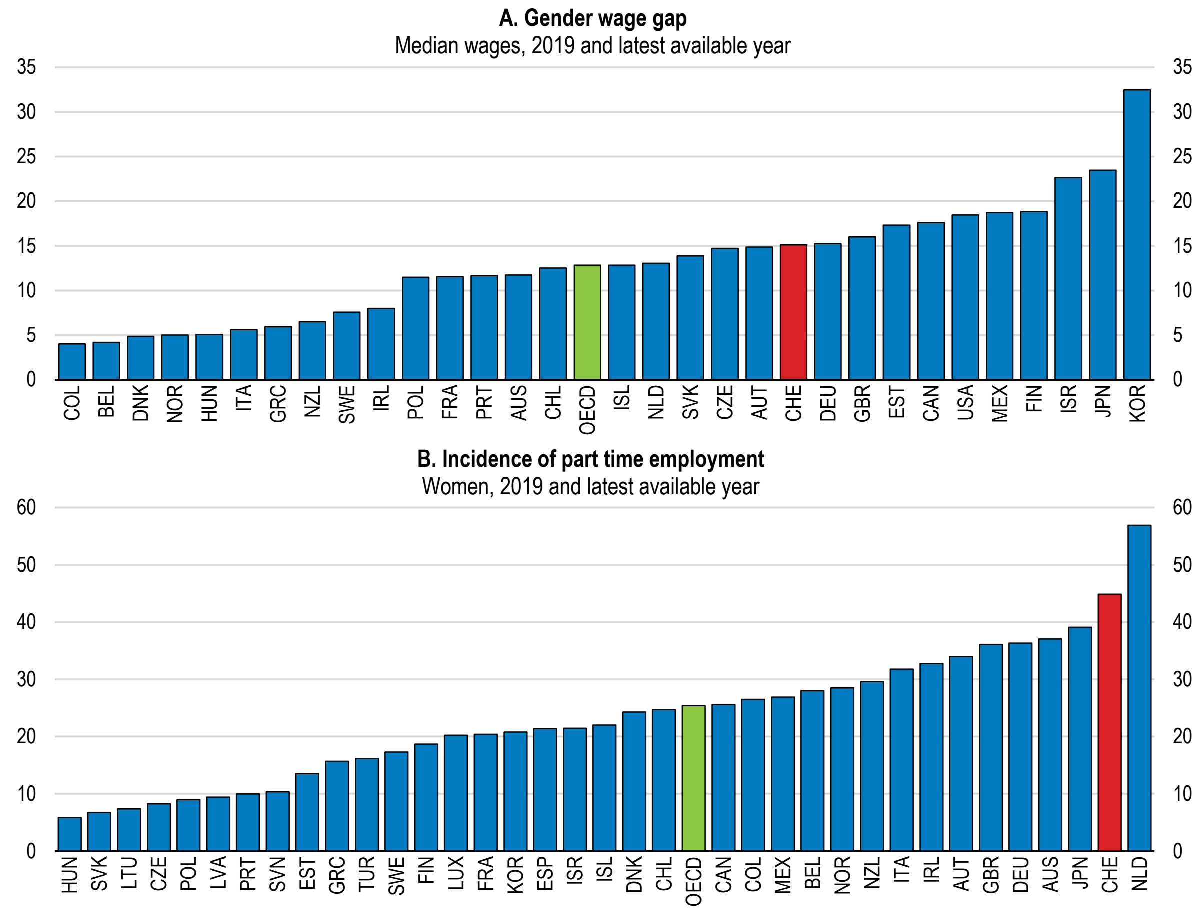
The gender wage gap for full-time workers, at 15% in 2019 (when considering median wages, 19% when considering average wages), is above the OECD average (Figure 2.9, Panel A). While female employment is very high in Switzerland, close to 45% of women work part-time (Figure 2.9, Panel B). This further aggravates the gap in labour incomes between men and women that stood at 45.5% in 2018, well above the OECD average. The gender gap is also related to low labour participation of mothers with young children. This group shows a roughly 15% gap in employment compared to prime-age men.

During the recent crisis, the reduction of working hours has been only slightly more pronounced for women than for men. The most affected sectors such as the hospitality sector disproportionately employ women, but this is also the case for sectors whose employment remained robust during the crisis, such as public administration, education and health care (Figure 2.10, Panel A). Nevertheless, survey data indicate that the burden of caring for children during lockdown and closures of day-care facilities fell disproportionally on women. This can probably partly explain why the uptake of the STWC in the first transition period analysed (Q1 to Q2) was more frequent for women even after controlling for occupation (see Box 2.2). This was the time when school closed for several weeks.

Figure 2.9. The sizeable gender wage gap and high incidence of part-time work weigh on women's labour incomes



Note: Panel A: Gender wage gap for workers in full-time employment. Panel B: Part-time employment is based on a common 30-usual-hour cut-off in the main job.
Source: OECD Labour Force Statistics database.

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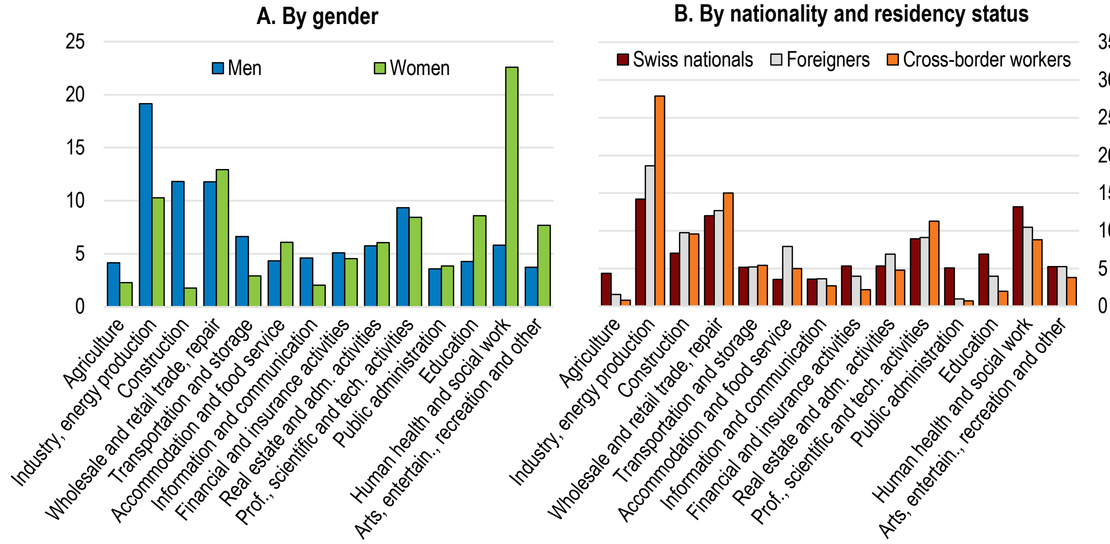
Figure 2.10. Women and foreigners disproportionally work in the most affected sectors

Effective working hours by sector, % of total, 2019



Source: Federal Statistical Office (FSO).

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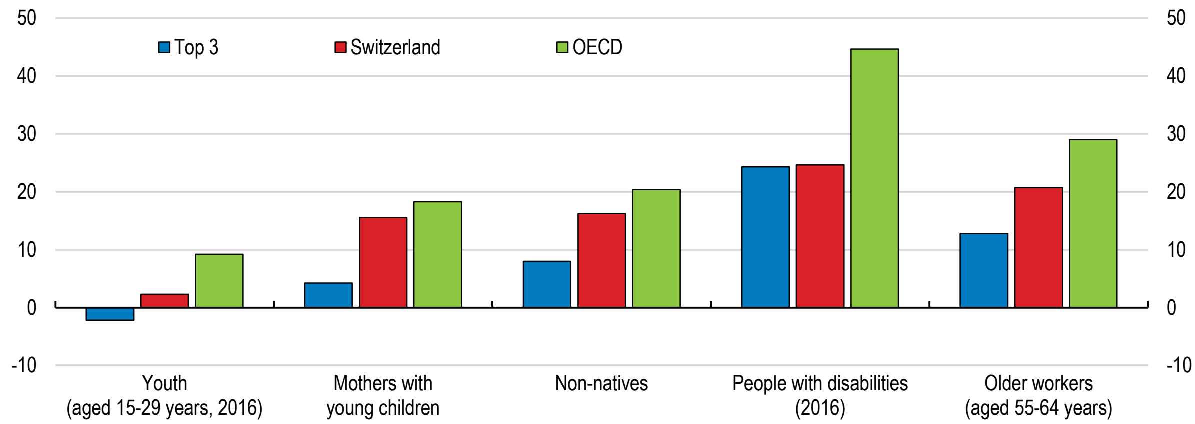
Switzerland compares well internationally on the labour market integration of under-represented groups (Figure 2.11), but some groups face challenges. Older workers (aged 55-64) have almost 20% lower employment rates than prime-age men, a gap below the OECD average but significantly above best performers. Data shows that the crisis has not affected the employment of older workers disproportionally but previous experience suggests that their reintegration in the labour market following an unemployment spell is significantly more challenging than for prime-age workers (SECO, 2019a and 2020). Hence, they are more likely to end up in long-term unemployment. Also, non-native workers have a significantly lower employment rate, with an employment gap to native workers of 17%, and their unemployment rate rose further during the crisis (to 8.5% versus 3.9% for native workers in 2020 Q4) in part because they disproportionately work in the most affected sectors (SFO, 2021). They are, in particular, over-represented in the hospitality sector (Figure 2.10, Panel B). The impact of the pandemic on the specific situation of cross-border workers is more difficult to assess as Swiss statistics on unemployment and STWC scheme use (to which they are eligible) by country of residence are not available. However it is noteworthy that the number of cross-border workers among the active population did not decline during the pandemic: it stagnated during the first half of 2020, at about 340 thousand, and rose thereafter to reach 352 thousand by the third quarter of 2021. As these workers are significantly over-represented in the manufacturing sector (Figure 2.10, Panel B), these developments partly reflect the evolution of activity in manufacturing: a significant drop during the first wave of the pandemic, which led the sector to massively use the STWC scheme, followed by a relatively rapid recovery.

With regard to youth (15-29 years), Switzerland is among the best performers in terms of the employment gap. During the crisis, youth unemployment (15-24 years) significantly increased during the second and third quarter of 2020, but it quickly returned to the pre-pandemic level by the end of the year. Similarly, young workers were less likely to be placed on STWC than older workers in the second quarter of 2020 but in the later stages of the crisis the protection offered by the scheme appears to have been quite even across age groups (see Hijzen and Salvatori, forthcoming).

Figure 2.11. Employment gaps are sizeable for some groups

Employment gap[1], per cent, 2019 or latest year available



1. The employment gap is defined as the difference between the employment rate of prime-age men (aged 25-54 years) and that of the group, expressed as a percentage of the employment rate of prime-age men. Youth excluding those in full-time education or training. Mothers with young children refers to working-age mothers with at least one child aged 0-14 years. Non-natives refers to all foreign-born people with no regards to nationality.

Source: OECD (2018), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy, OECD Publishing, Paris, https://doi.org/10.1787/9789264308817-en; OECD Labour Force Statistics; OECD Family database; OECD Migration Statistics.

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Exiting the crisis and facilitating job reallocation

Balancing adequate support and incentives for workers' reallocation

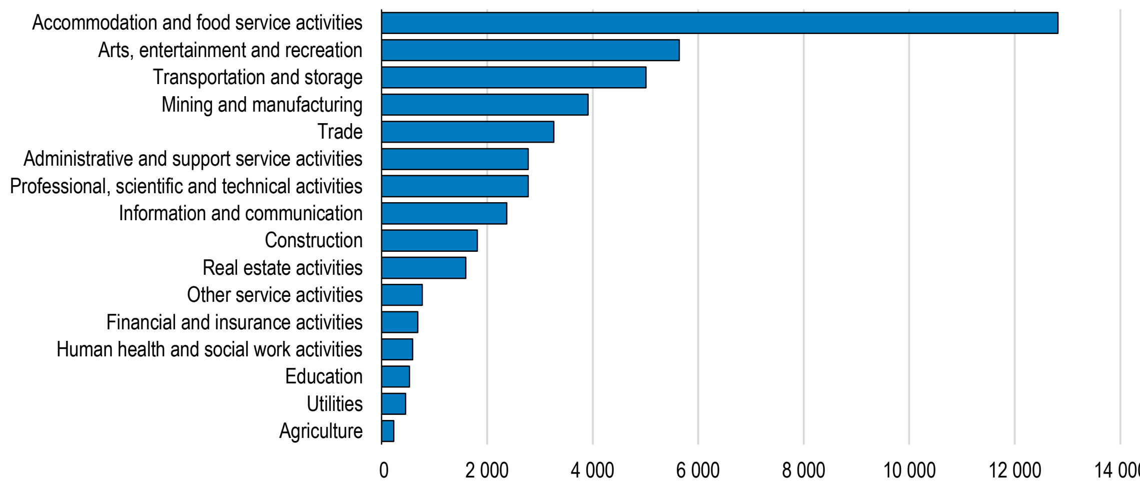
During the early stages of the pandemic when activity was heavily constrained by containment measures, the short-time working compensation (STWC) scheme was the main instrument to support the economy and the labour market. It provided the necessary support to firms to keep their workers, helping them avoid costly firing and rehiring while sustaining workers' incomes. The corona compensation scheme for loss of earnings also played a role, supporting the self-employed, people in quarantine and parents who had to stay at home for childcare duties.

Nevertheless, extended job retention schemes may disincentivise workers to look for a new job, slowing economic restructuring. There are risks that the Swiss economy will not just simply go back to its previous state once containment measures are finally removed. For instance, the air transportation sector as well as tourism operators expect lower client flows for several years to come (Arni, 2020). The massive increase in the use of online tools and services during the pandemic may also prove durable and have a more permanent impact on the economic structure and the labour market. Protracted containment measures have significantly weighed on the financial health of some enterprises, especially in the most affected sectors where concerns about potential bankruptcies rose significantly in the first months of 2021 (KOF 2021c). The risk therefore is that the schemes protecting jobs channel public money to protect the status quo.

However, for now, there is little evidence that the schemes protected unviable jobs or that they inhibited workers' reallocation. Data shows that support overwhelmingly went to firms in sectors affected by government-mandated restrictions (Figure 2.12). Meanwhile, job vacancies remained generally depressed in 2020 and in the first quarter of 2021 (see Figure 2.2), limiting opportunities for job mobility. Still, the number of vacancies across sectors displayed a large heterogeneity of labour demand and they strongly rebounded during the second and third quarters of 2021. However, based on FSO survey-based job statistics, the difficulty for firms in hiring staff decreased in 2020 in comparison with 2019 in a wide majority of sectors.

Figure 2.12. Short-time work was massively used in the sectors most affected by restrictions

Short-time working compensation (STWC) disbursements by sector, CHF per person employed, March 2020-October 2021



Source: OECD calculations based on SECO, BFS, OECD National Accounts database.

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Concerns about the possible adverse effects of the STWC on job reallocation grow in cases where restrictions persist and an elevated number of workers remain on the scheme for a prolonged period of time. Questions about the viability of jobs that are being supported for a prolonged period are likely to intensify, while the risk of undermining job creation and reallocation increases as vacancies pick up. Yet, as pointed in the latest OECD Employment Outlook (OECD, 2021a) assessing the viability of jobs is very difficult for government even in normal times, let alone in a context where economic restrictions remain important and market signals are weak (see also OECD, 2020a). Therefore, the government needs to adapt the STWC scheme to provide better incentives for firms and workers - who are likely to have a better sense of the viability of a given job than governments - to use support only for jobs that are temporarily at risk but remain viable in the longer term.

Before the crisis, firms facing a temporary downturn could request the STWC from the cantonal employment office, upon agreement with the employees. An advance notification of the claim needed to be made at least 10 days ahead of the expected reduction in working hours. The compensation, paid by the unemployment insurance to the enterprise, represented 80% of the employee’s loss of earnings attributable to the reduction in working hours. It also covered the employer’s share of social security contributions associated with reduced hours (except for the employers’ contributions for family allowances and for the second pillar of the pension fund). Only permanent employees were eligible to receive a STWC for a maximum duration of 12 months (with a possible extension to 18 months if necessary) for every two-year period. Requests needed to be renewed every three months. However, enterprises had to pay full wages of two working days (“waiting period”) per month during the first six months of the scheme, and three working days thereafter, increasing the stake of the firm in the scheme.

During the early stages of the pandemic, the federal authorities took a broad set of measures to facilitate the uptake of the scheme and broaden its coverage. With regards to the process, from March 2020 to June 2021, the claim process was simplified and digitalised. Up to December 2021, the 10-day advance notice for claims was eliminated. Between September 2020 and December 2021, the cantonal authorities’ reassessment of a firm’s request were set to occur every 6 rather than 3 months. With regards to benefits, the “waiting period” of two (or three) days was suppressed from March 2020 to June 2021, reducing the cost to firms. Starting in July 2021, a waiting period of one day per month was reintroduced. In September 2020, the maximum duration of the scheme was extended to 18 months and, in March 2021, to 24 months.

To protect the incomes of the most vulnerable workers, between December 2020 and June 2021, workers on STWC earning up to CHF 3470 received 100% compensation of their earnings. In addition, during the first wave of the pandemic and from January to September 2021, apprentices and workers on fixed-term employment contracts were also made eligible to receive STW compensations. It was also the case for temporary agency workers but only during the first wave of the pandemic.

While these arrangements to the pre-existing STWC scheme offered necessary protection to workers and companies, they should be scaled back as restrictions are lifted and the economy recovers, to let economic restructuring take place. However, a transitory phase is warranted to ease pressures on hard-hit sectors.

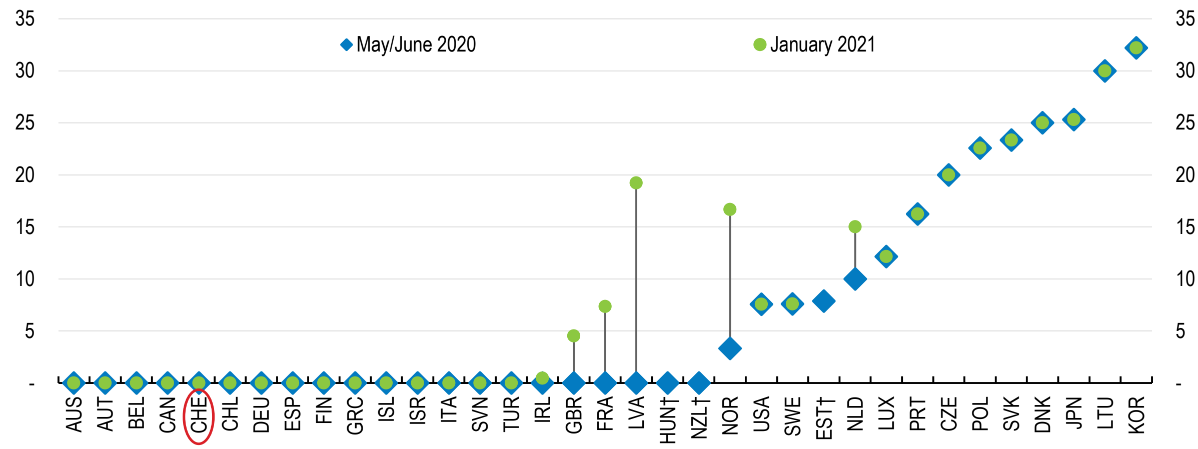
Going back to the initial, stricter, duration of the STWC scheme can ensure that support is time-limited and is not used to support firms with structural difficulties. The extended maximum duration of support in Switzerland, at 24 months, is relatively long in international comparison (OECD 2021a). The length of the scheme also reaches 24 months in Germany but is limited to 3 months in Portugal, for instance. In France, the length of support can reach 24 months as well but only if the activity of employees is not reduced by more than 40%. Prolonging the maximum duration of the scheme, even if warranted at the beginning of the crisis when the duration of the shock was not known, bears the risk of supporting jobs that are no longer viable.

Empirical evidence from the global financial crisis (GFC) shows that in the context of a temporary shock, the use of the STWC in Switzerland was effective in preventing unemployment rather than postponing it, reducing scarring effects from the shock. However, the results hold for the majority of firms that left the scheme before the end of its maximum duration when it was economically viable to do so. In contrast, businesses that used the scheme up to its legal end tended to lay off workers after its termination (OECD 2020a, Kopp and Siegenthaler, 2019). In Italy, where the GFC had long-lasting effects and the STWC scheme was targeted to low-productivity firms, the effects of the program were more mixed with many layoffs being postponed rather than prevented, slowing down job reallocation (Guipponi and Landais, 2018).

The STWC scheme can also be adapted to require participating firms to cover part of the cost of hours not worked. This can strengthen incentives to use the scheme to only support jobs that are likely to resume regular work schedules soon after the crisis. The reintroduction in July 2021 of a co-payment by employers (this co-payment was suspended for the first three months of 2022 due to elevated uncertainty) in the form of a one-day waiting period per month and employee in STWC is a step in the right direction. However, the incentive is quite limited and could be raised to 2 or 3 days of waiting period as in the initial setting of the scheme, at least in sectors that are not facing restrictions any longer. Some OECD countries provide alternative examples of measures aiming at increasing firms' financial participation in job retention schemes (Figure 2.13). From July 2021, employers in Germany taking part in a job retention scheme will become liable again to social security contributions (OECD 2021a). In France, since July 2020, firms have been required to pay 10% of the cost of hours not worked in sectors that are no longer subject to restrictions.

Figure 2.13. Several countries have recently (re)introduced or increased co-financing by firms in job retention schemes

Cost of hours not worked for firms as % of labour cost for the maximum permissible reduction in working time, May/June and January 2020



Note: † Schemes no longer operational in January 2021. Mandatory employer contributions for private insurance are not taken into account (consistent with the OECD methodology of Taxing Wages). Norway: for the first 3 months (60 days).
Source: OECD Employment Outlook 2021, Chapter 2.

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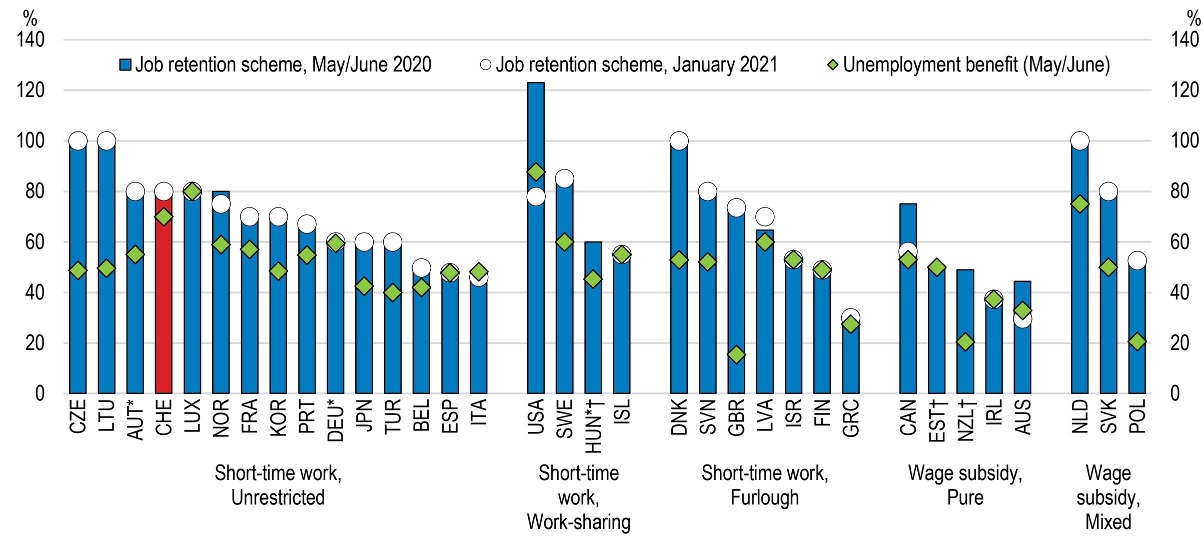
The STWC scheme in Switzerland mostly applied the same rules to all firms. While eventually equal treatment of all firms is desirable, the transitory phase could provide for some differentiation across sectors and firms to take into account the heterogeneous impact of the restrictions. From July 2021, France, for instance, applied different rules for sectors that remained subject to government-imposed restrictions as seen in the example above. Since August 2020, Portugal requires firms to pay for 30% of the costs of hours not worked when working time is reduced by less than 60%, while there is no co-financing for firms with larger reductions in working time. Moreover, firms with a reduction in sales of more than 75% can receive additional wage subsidies to contribute to the cost of hours worked (OECD, 2021a). Some differentiation was introduced also in Switzerland, from December 2021. Places facing tighter restrictions (access only for vaccinated people or people who have recovered from COVID-19 and present a negative test result) such as nightclubs or indoor pools are entitled to the short-time working compensation also for on-call workers with an open-ended employment contract, workers with fixed-term contracts and apprentices.

Balancing job retention and reallocation also requires striking the right mix of in-work (job retention schemes) and out-of-work (unemployment benefits) support. In most OECD countries where job retention schemes are in place, gross replacement rates within those schemes were more generous than the unemployment benefits, at least in the early phase of the crisis (Figure 2.14). This was also the case in Switzerland where the hours not worked, on STWC, were subsidized at 80% of the worker's hourly earnings compared to 70% under the unemployment insurance scheme (for workers with no dependent children and/or an insured wage above CHF 3797). The gap is not large. However, the decision of the Parliament in December 2020 to increase the replacement rate of hours not worked under the STWC scheme to 100% for workers earning up to CHF 3470, made it significantly bigger for low-income workers.

More generous STW benefits than unemployment benefits might boost acceptability of the scheme by employees, and help prevent a situation where too many unemployed people search for a limited number of jobs at the same time (OECD 2021a, Guipponi and Landais 2018 and Lalive, Landais and Zweimüller, 2015). The gap may also help employees internalise the additional benefit of keeping the existing employer-worker match to the employer, due to the value of the job-specific human capital and costs of firing and hiring. However, reducing this gap over time should be envisaged to avoid hindering workers' willingness to look for a new job. Moreover, the increase of the STWC replacement rate to 100% for low-income workers, while warranted in the early time of the crisis as they have been disproportionally affected by the pandemic, should remain temporary, as currently planned.

Figure 2.14. Gross replacements rates in job retention schemes tend to be higher than in the unemployment benefit systems

% of gross wage, evaluated at the average wage for the maximum permissible reduction in working time



Note: Net terms (after taxes and other benefits). † Ended schemes in January 2021. Unemployment benefit for a single adult with no children and two months of unemployment.
Source: OECD Employment Outlook 2021, Chapter 2.

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Some subsidized jobs are likely to become permanently unviable, with a high risk of workers losing their jobs eventually. In this context, supporting transitions from subsidised to unsubsidised jobs could be warranted. This could be done through the provision of effective public employment services (PES) to beneficiaries of the STWC scheme. In Switzerland, workers on the STWC scheme are allowed to voluntary register with a regional placement office (RPO) and access its services which include job–search assistance, career guidance and counselling (OECD 2021a, OECD 2020b). However, such registration is neither mandatory nor actively promoted by the federal or cantonal authorities, raising doubts about its actual uptake. Targeted support to employees in STWC would be warranted as Hijzen and Salvatori (forthcoming) show that in Switzerland during the pandemic, employees on STWC scheme in a given quarter were significantly more likely to lose their job the following quarter compared to other employees. Support could take the form of regional placement offices reaching out to workers on protracted spells in the STWC scheme (especially if their working hours have been significantly reduced) with information about the process and the potential benefits it can provide. The use of a simplified application process has facilitated the uptake of the STWC during the peak of the crisis but has provided little information on the identity and personal characteristics of the beneficiaries to the public employment services. With the progressive recovery, the digital application process should be revised to increase the set of information on beneficiaries available to the PES and allow for a better follow-up of their situation. More generally, incentives for workers on reduced hours to participate in training could be provided as this would be beneficial for all workers on STWC scheme, including those who expect their position to be maintained. In New Zealand, for instance, the Ministry for Social Development contacted firms on job-retention schemes with information about training opportunities. In France and Germany, financial incentives are provided to firms or workers to encourage training.

Seizing the opportunity to reconsider the social protection of the self-employed

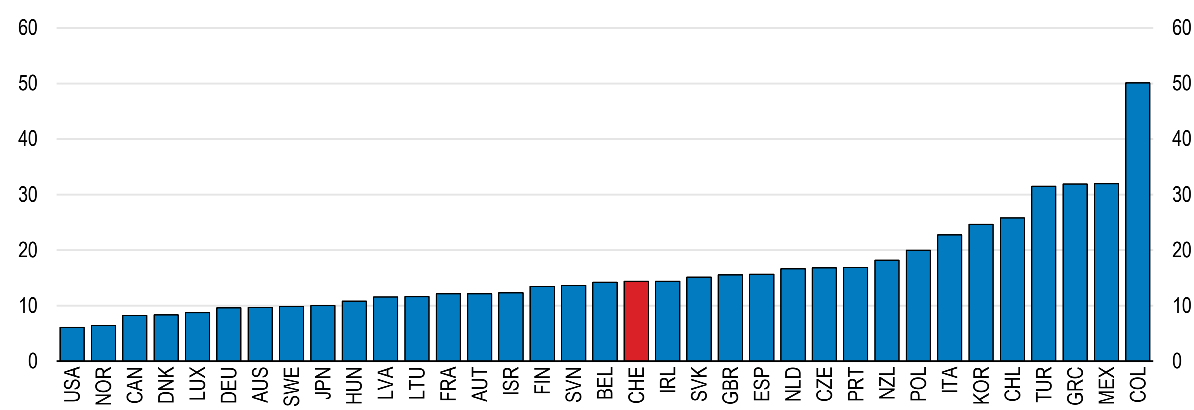
Through the corona compensation for loss of earnings, the government offered support to the self-employed during the crisis. This was welcome, as the self-employed experienced a larger decline in effective working hours than employees (effective working hours decreased by 5.5% for the self-employed in 2020 compared to 4.5% for employees according to SFO data). As a result, they also faced a larger drop in income among the people in employment according to the sixth edition of the SRG Corona Monitor survey carried out by the Sotomo research institute (Sotomo, 2020).

The incidence of self-employment is relatively high, but strict rules classify a number of non-standard workers as dependent employees, ensuring social protection. The self-employed represented 14.4% of total employment in 2019, a higher share than in many advanced economies (Figure 2.15) despite quite strict qualifying criteria. To be recognised as self-employed a person needs to work for more than one client, act in his or her name, must be free to organise his or her work and must carry the financial risks associated with their activity (CIAA 2016 and Bonoli 2017). These strict rules, for example, grant most "platform" workers the status of dependent employees and, as such, a broader social protection coverage.

The social protection of the self-employed, on the other hand, shows large gaps in Switzerland as in a number of OECD economies (Figure 2.16). The self-employed have access to first pillar provisions of old-age pension and to invalidity insurance as well as to income compensation during maternity leaves and family benefits. However, they are not systemically covered by the second-pillar of pension and invalidity insurance. In many cases, self-employed workers need to insure themselves at their own initiative if they want to complement the first pillar provisions (Bonoli 2017). The tax system provides incentives to contribute to these schemes. Moreover, self-employed workers are little covered by unemployment insurance as they can only claim unemployed benefits if, in addition to self-employment, they have completed a minimum contribution period of at least 12 months of paid employment in the four years preceding the unemployment spell.

Figure 2.15. Self-employment represents a sizable share of employment in Switzerland

Self-employment, % of total employment, 2019 or latest available year



Source: OECD Annual Labour Force Statistics database.

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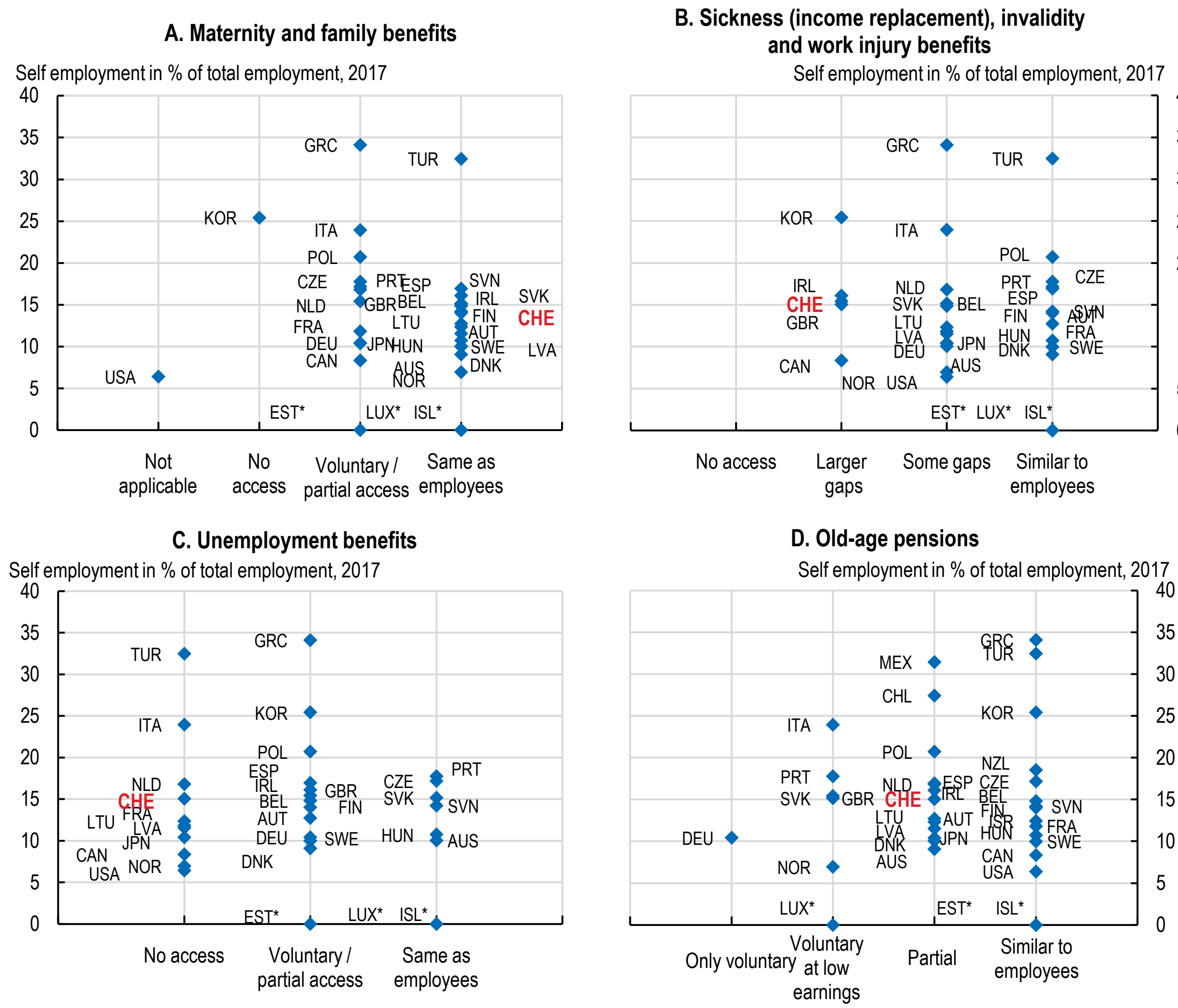
Unlike the STW scheme, the compensation for loss of earnings for the self-employed did not exist before the crisis and is expected to remain temporary. This is warranted, as perpetuating the scheme within its current design would raise important equity and moral hazard issues. Still, setting up a more permanent mechanism targeted at this group of workers could ensure a more equitable provision of employment and social protection to workers irrespective of the form of their employment, as emphasised in the new OECD Jobs Strategy. Already before the pandemic, a number of countries, including Austria, Canada, France and Spain, extended entitlement to unemployment benefits to self-employed workers. In cases where the distinction between dependent employment and self-employment becomes more blurry, and where the transitions from one status to another become more frequent (ILO-OECD, 2020), a harmonisation of social coverage across employment status could be warranted. This would also allow for the portability of social benefits across categories of employment, whereby built-up entitlements would not be lost in labour market transitions (OECD 2019d). Denmark, for instance, recently strengthened the portability of earned entitlements across different jobs and forms of employment (OECD 2020b).

Figure 2.16. Access to social protection is limited for self-employed workers

Statutory access to social protection for the self-employed, compared to dependent employees by social protection branches, 2017



Note: Gaps between standard dependent employees (full-time open-ended contract) and self-employed workers. “Partial access” to benefits can arise if a) eligibility conditions, benefit amounts or receipt durations are less advantageous for self-employed workers; b) insurance-based and non-contributory benefits co-exist and individuals can access only the latter (e.g. only basic pension and not earnings-related); or c) the self-employed can choose to declare a lower contribution base while dependent employees pay contributions on full earnings (possibly subject to a ceiling). “No access”: compulsory for dependent employees but self-employed are excluded. * Data on self-employment incidence is missing/incomplete for Estonia, Iceland and Luxembourg and refers to 2015 for the Slovak Republic and to 2014 for Latvia.
Maternity and family benefits: “no access”: access to neither maternity benefits nor family allowances, “voluntary/partial access”: voluntary or partial access to both schemes, or full access to one, but no access to the other. “Not applicable”: schemes do not exist.
Sickness, invalidity and work injury benefits: “no access”: “no access”: access to none of these benefits, “larger gaps”: less than full access to all of the benefits and no access to at least one; “some gaps”: no access to one benefit and at least partial access to the others, or voluntary or partial access to all three benefits; “similar to employee”: at least partial or voluntary access to all benefits, and at least full access to one.
Old-age pensions: “voluntary at low earnings”: coverage is generally similar to employees but opt-out is possible if earnings are below a certain threshold. “Similar to employees”: mandatory coverage as for employees but contributions may still differ.
Source: OECD (2019d), OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris. https://doi.org/10.1787/9ee00155-en.
StatLink https://stat.link/9vjkp4

At the same time, extension of the unemployment benefit coverage to the self-employed comes with significant policy challenges. It raises moral hazard issues as it is difficult to assess whether their unemployment is involuntary and to evaluate earnings losses. Also, higher volatility of self-employed earnings relative to employees makes the calculation and collection of contributions more challenging. The administrative burden is another obstacle that can deter self-employed workers from participating. Moreover, for low-income self-employed workers, the need to shoulder both the employer and employee share of contributions may be challenging (ILO-OECD 2020, OECD 2018f).

To deal with these challenges, some lessons can be drawn from international experience. Acknowledging the diversity of situation of self-employed workers, a number of countries have set voluntary schemes for unemployment protection. The experience of Sweden and Austria shows that these schemes tend to be prone to adverse selection and rarely lead to substantial levels of effective coverage and protection (OECD, 2018g and ILO-OECD 2020). In this context, a mandatory contribution could be considered, with appropriate mechanisms in place to support the participation of those with lower contributory capacity. In South Korea, for instance, the issue was addressed by subsidising contributions for low-income self-employed workers. In Switzerland, the difference in contributory capacity of self-employed workers is already taken into account for some social protection segments (the first pillar of old-age pensions and invalidity insurance and maternity insurance) with their contribution rate depending on annual earnings and ranging from about 5.4% to 10%. However, in designing such policy, care should be taken to ensure equal treatment of employees and the self-employed. This could be achieved, for example, by lowering the contribution rates of low-wage employees. Moreover, allowing for interruptions or delays in contribution, as in Korea, could help deal with the higher volatility of self-employed workers earnings. The moral hazard raised by the difficulty to control the activity and income of self-employed workers who claim unemployment benefits can be addressed by requiring them to close their business before making such a claim as in Sweden or Denmark. In Belgium, only self-employed workers whose company went bankrupt or who had such a low income from self-employment that either their social security contributions were waived or they did not reach a minimum earning threshold for two years are entitled to benefits (OECD, 2018g).

Boosting active labour market policies

Active labour market policies (ALMPs) are an important element for labour market resilience by helping displaced workers find jobs more quickly and through effective matching of jobseekers with emerging job opportunities. During the early waves of the pandemic, the rise in unemployment and the pervasive use of the short-time working compensation (STWC) scheme in particular posed major challenges to benefit administrators and employment services in managing the vast volume of incoming support claims. Still, Switzerland is one the few OECD countries which had a mechanism in place before the COVID-19 outbreak to tackle a potential crisis on the labour market. This proved very useful in dealing with the emergency (OECD 2021a).

Public employment services budgets are directly linked to the number of registered jobseekers in cantons and can be adjusted during the year. This flexibility enabled a swift increase in human resources in 2020 to support public employment services. Staffing levels are estimated to have increased by more than 10% (OECD 2021a), helping to respond to the growing demand from jobseekers.

Labour market and activation policies are highly decentralised which can lead to higher responsiveness to local market needs (OECD 2020c). The cantons are responsible for local public employment services and for the administration of AMLPs for the unemployed. At the federal level, the State Secretariat for Economic Affairs (SECO) sets the basic policy parameters and is responsible for financing and administering some active labour market programmes as well as for advising and supervising cantonal PES. At the local level, the benefit and placement functions are separated between the unemployment-fund on the one hand, and the local employment services on the other hand. The unemployment funds are in charge of settling both unemployment benefits and the STWCs. Local public employment services (PES) offices carry out job placement, refer clients to ALMP programs and monitor job-search requirements. In addition to federal AMLPs, most cantons also fund, design and implement their own labour market programmes.

While a decentralised framework of AMLP provision can boost responsiveness, it requires a well-designed national-level accountability framework to function successfully in the long term (Weishaupt, 2014). The main element of federal control is the publication of benchmarking outcomes for local PES performance, which is expected to exert peer-group pressure on local offices for continuous improvement of performance (Duell et al, 2010). These indicators give priority to a quick placement into a job but also evaluate the durability of the placement. Moreover, inter-cantonal sharing of experiences, in particular regarding good practices in terms of activation measures, is strongly encouraged by the Confederation.

The execution of labour policies and performance vary widely across cantons, despite the coordination instruments. With the gradual lifting of pandemic restrictions, additional efforts to diffuse good practices for active labour market programs as soon as they have been identified and to ensure that adequate strategies have been set up to boost jobs recovery would be warranted to give the unemployed in all cantons an equal chance of reemployment. Past evaluations highlight the importance of establishing a clear placement strategy for jobseekers in each canton as cantons where it was missing tended to underperform. The use of targeted measures for specific groups of jobseekers varies widely across cantons and could be more widespread as they are associated with more positive outcomes in terms of placement (Federal Council, 2016).

During the crisis, many job placement services across OECD economies moved on-line to comply with distancing requirements and technology utilisation was scaled up at an unprecedented pace. Such move represents a unique opportunity for PES to expand digital services more permanently to better serve their customers in the post-pandemic world. Some services that were only available face-to-face before the pandemic can now be accessed remotely, including job-search assistance, counselling and career guidance. Switzerland should build on these investments to further improve the efficiency of PES processes and facilitate their access. Appropriate support should also be provided to clients without digital skills or with complex needs, including basic IT training to navigate PES e-services. Classroom training has also been delivered online, but more could be done to expand access and coverage. At the same time, PES should retain some face-to-face capacity to ensure continued support to clients without digital skills or with complex needs.

The Swiss PES system puts a strong emphasis on the job-search requirement for the unemployed to be eligible for the unemployment insurance and gain access to services. In normal times, jobseekers need to present at their monthly face-to-face meeting with their counsellors proof of their job applications during the past period. Their unemployment benefits can be temporarily reduced if they cannot provide such evidence. The job-search requirement was temporarily delayed and adjusted during the peak of the crisis but reintroduced in its original form in autumn 2020. The incidence of benefit sanctions in case of non-compliance is also comparatively high. While these measures have proven useful in the past to raise re-employment (Federal Council, 2016), they may be less effective in time when jobs opportunities are limited. In this context, a stronger emphasis on measures aiming at boosting hiring and promoting the mobility of workers, including the beneficiaries of the STWC could be envisaged.

Evidence from the global financial crisis suggests that hiring subsidies can boost job growth and be cost effective (Cahuc, Carcillo Le Barbanchon, 2018). They need to be well targeted to be cost effective and adequately support groups in need. Many OECD countries, including Australia, France, Italy and the United Kingdom, have recently introduced or renewed such measures. Several employment incentives exist in Switzerland that could be further developed. In the intermittent pay scheme, for instance, a wage subsidy is paid to registered unemployed persons if their wage or income from a new job is lower than their unemployment benefit. Past evaluations have found that the scheme worked particularly well for long-term unemployed, young, low skilled and hard-to-place jobseekers (Duell et al, 2010, Wunsch 2021). Temporary job-insertion allowances is another available tool. It is paid to employers who hire jobseekers that previously encountered difficulties in finding employment. Start-up incentives could also be boosted to encourage take up of self-employment. A substantial body of evidence shows that new companies account for a large share of job creation (Criscuolo, Gal and Menon, 2014, Haltiwanger, Jarmin and Miranda, 2013). Currently, support is only available for the planning and preparation phase but not for the start-up phase itself (Duell et al, 2010).

Fostering geographical mobility

With only 1.7% of residents having moved residence to another canton each year on average from 2015 to 2019 according to the Federal Statistical Office data, inter-cantonal mobility is low. In comparison, 2.5% of the OECD population changed their region of residence per year, on average, between 2015 and 2018 (OECD 2020h). Linguistic barriers as well as differences in schooling, tax systems and regulations lead many workers to commute rather than change canton of residence in spite of federal authorities' efforts to harmonise cantonal laws. As a result, in 2019, 9.5% of the employed population in Switzerland had a one-way commuting time of one hour or more to reach work, compared to 7.7% on average in the EU according to Eurostat data.

With differentiated impacts of the crisis across regions and territories, facilitating geographical professional mobility could help better match labour supply and demand and foster recovery. Further steps could be taken to facilitate mobility. For instance, the nationwide mobility of licensed professionals is guaranteed by the Law on Internal Market, but in practice, cantonal restrictions and administrative barriers have been frequently observed, especially regarding access to jobs for healthcare specialists (ComCo 2020, OECD 2019a). Linkages between eligibility for cantonal social benefits and length of residency should also be reviewed (i.e. the required length shortened), to avoid lock-in effects. In the Vaud canton, for example, households need to have lived in the canton over the last three years to be eligible for supplementary family benefits. Five years of residency are required in the canton of Geneva. Administrative barriers can also weigh on mobility of foreign workers. Cantonal legislation requires a minimum residence period of between two and five years in the canton or municipality before foreign nationals can apply for naturalisation. Furthermore, the acquisition and use of land and real estate by foreigners is highly restricted (OECD, 2020d).

High housing prices in Switzerland are also likely to hinder residential mobility. In principle, the high rate of renting in Switzerland – almost 60% of households – should support mobility. However, Swiss tenancy laws restrict rent increases, so long-term tenants pay well below market prices (OECD, 2015). This generates lock-in effects, limiting workers' ability to adjust to changing job prospects and hampering downsizing of residency by older households. The tenancy law should be adjusted to minimise lock-in effects, accompanied by targeted housing allowances or additional social housing for low-income households (OECD, 2015).

Making the labour market more inclusive

As discussed in the first section, the pandemic disproportionately affected low-income workers. With population ageing already constraining labour utilisation growth, Switzerland would benefit from bringing under-represented groups more effectively into the labour market, including by up-skilling them. Moreover, care needs to be taken that closures of schools, of training centres and of enterprises in the most affected sectors as well as widespread use of teleworking do not broaden inequities in education and weigh on young people's entrance on the labour market.

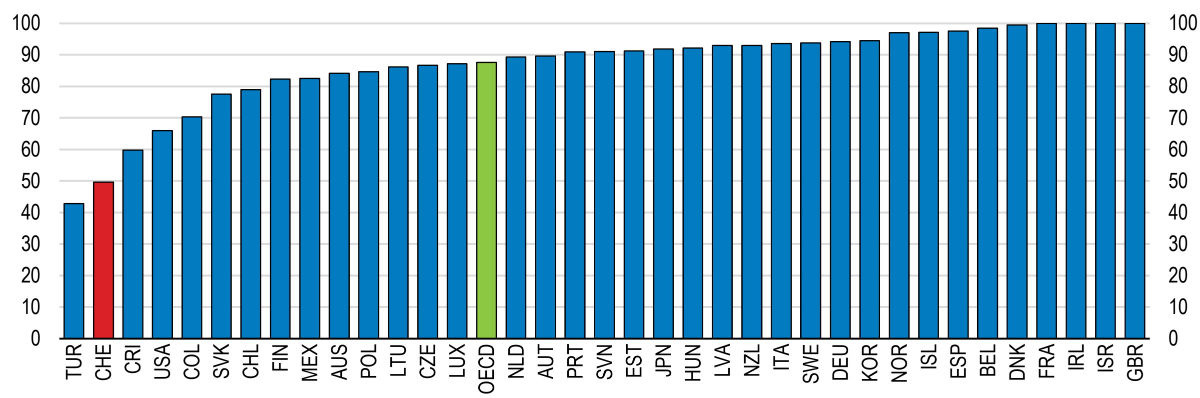
Addressing the gender income gap

The sizable gender income gap and disproportionately high incidence of part-time work among women call for measures to address women's disincentives to work full time. The high cost of childcare, and low supply of early childhood education as well as an organisation of the school day that is not well aligned with working hours have long been reported as major reasons for difficulties of mothers to join the labour force full-time (OECD 2017a, OECD 2013). Moreover, the income tax system leads to high marginal taxation of second-earner incomes, adding further disincentives to work.

Increasing the supply of affordable childcare remains a priority. In 2018, only 50% of children aged 3 to 5 years were enrolled in early childhood education and care, well below the OECD average of 87% (Figure 2.17). Since 2003, the government set up a dedicated program to expand childcare provision that is expected to end in 2023 and is estimated to have helped create 65 000 new childcare places. Potential remaining supply shortages are however difficult to assess in the absence of adequate estimates of demand. According to the social partners, they remain sizable (USS, 2021) and a recent policy brief from the Federal commission on family issues reports that children from disadvantaged families are significantly less likely to have access to childcare facilities (COFF, 2021). High income families use childcare facilities 50% more than low income households. A recent parliamentary initiative called for a more long-lasting financial support to parents and improvements in childcare services (SECC-N, 2021).

Figure 2.17. Enrolment in early childhood education and care is low

Children enrolled in early childhood education and care services, 3 to 5-year-olds, %, 2018



Note: Data include children enrolled in early childhood education and care (ISCED 2011 level 0) and primary education (ISCED 2011 level 1).
Source: OECD (2020), "How do early childhood education systems differ around the world?", in Education at a Glance 2020: OECD Indicators, OECD Publishing, Paris, https://doi.org/10.1787/7e21871e-en.

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The OECD Tax-Benefit model indicates that net childcare costs (for parents using childcare facilities, after benefits designed to reduce gross childcare fees) are high. For a couple with two young children earning the average wage, the net childcare cost represented 29% of the net household income, well above the OECD average of 10% (Figure 2.18, Panel A). Adding to these costs the high marginal personal income taxation of second-earners associated with the current family-based income tax system leads to a very high participation tax rate (proportion of earning that is lost to either higher taxes, lower benefits and net childcare costs when a parent takes up a full-time job) for second earners, often women. For instance, for a family with two young children using childcare facilities, the cost for a second earner to move from inactivity (or long-term unemployment) to full-time employment (earning the average wage) represents 75% of the average wage, versus 53% on average in the OECD countries (Figure 2.18, Panel B).

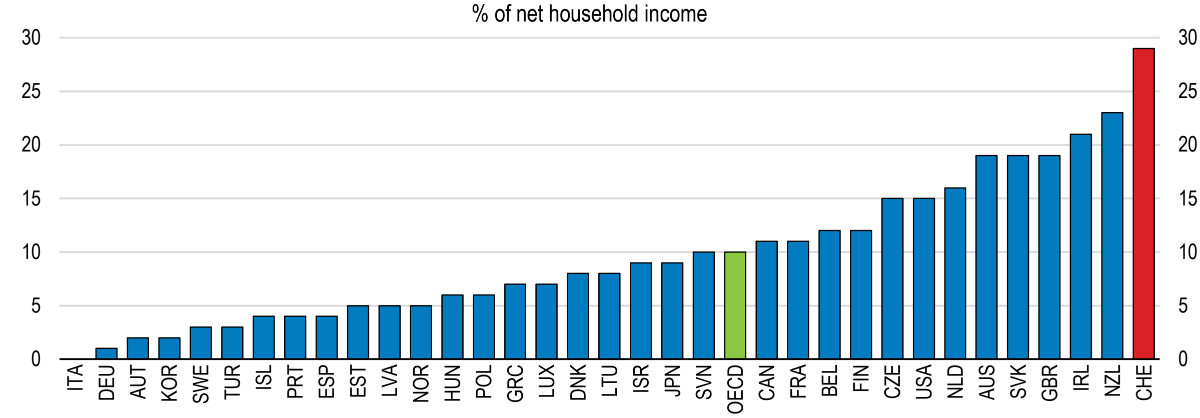
Various mechanisms help reduce these costs but they generally remain elevated, and support measures are not well-targeted. The federal personal income tax system allows for a tax deduction for childcare fees charged by a third-party of up to CHF 10 100 and a tax deduction of CHF 6 500 per child irrespective of declared childcare costs (along with a tax credit of CHF 251 per child), but, with more than 40% of Swiss families not paying federal income taxes, this provision has little impact on childcare affordability for low income households. A government initiative to raise these tax deductions was recently rejected by popular vote owing to such equity concerns.

Figure 2.18. The disincentives for second-earners to move to full time employment are very large

Couple with 2 children earning the average wage, 2020 or latest available year

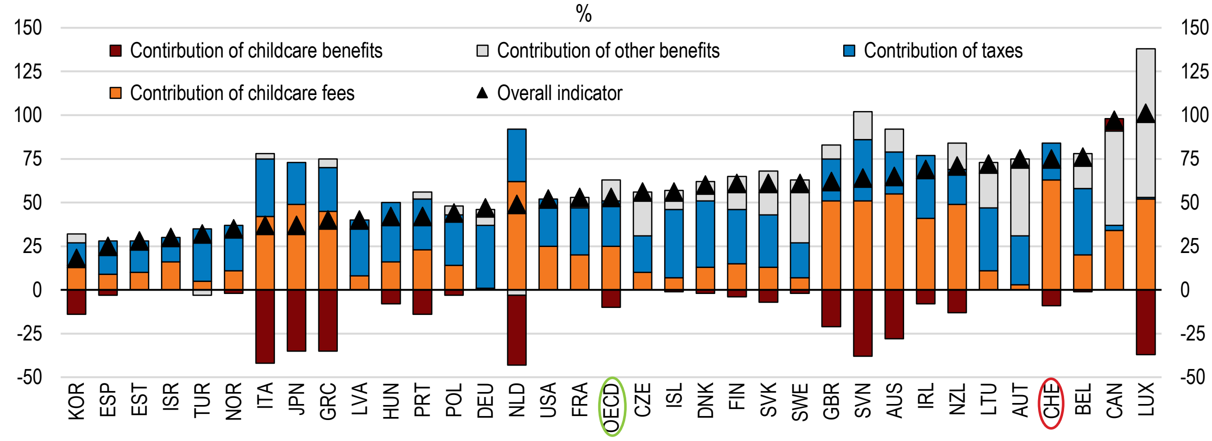
A. Net childcare costs for parents using childcare facilities

% of net household income



B. Participation Tax Rate (PTR) for parents claiming Unemployment Benefits and using childcare services[1]

%



1. This indicator measures the financial disincentives to participate in the labour market. It calculates the proportion of earnings in the new job that are lost to either higher taxes or lower benefit entitlements when a jobless person takes up employment and claims unemployment benefits. Higher values means higher financial disincentives.

Source: OECD Social Expenditure Database, http://www.oecd.org/social/expenditure.htm; OECD Family database, http://www.oecd.org/social/family/database.htm.

StatLink https://stat.link/692c4p

Families also receive cash benefits. Amounts vary across cantons but a nationwide legal minimum is set at CHF 200 per child per month. Cantons can complement these benefits by additional allowances or fee subsidies (that can be more specifically targeted towards low income households) but there is a large heterogeneity of cantonal policies in this regard. As a result, the proportion of childcare costs covered by parents varies widely across cantons (OECD 2021d). Further harmonising cantonal family policies would be a welcome step.

Providing fee reductions, childcare benefits or tax credits at the federal level rather than tax deductions would help increase childcare affordability without providing more generous support to better-off families. Moreover, targeting could be further improved by introducing income-tests on childcare benefits at the federal level (OECD 2020e). These transfers would need to be carefully designed and decrease with income only gradually to avoid creating large changes in marginal effective tax rates at thresholds and causing work disincentives. In Sweden, for instance, a maximum fee to be paid by parents as a percentage of household income is set at the national level while municipalities can set lower fees. With cantons responsible for the design of the personal income tax at the subnational level, adjustments may need to be done at both federal and cantonal level to ensure coherence of the taxation system.

Along with a higher number of affordable places in early childhood education and care, it is important to ensure quality. Evidence shows that early childhood education and care provides a crucial foundation for future learning and is important for success later in life, but much of the benefit crucially depends on the quality (OECD, 2018c, OECD 2017b). Early childhood education and care provision is quite fragmented in Switzerland. Different types of early childhood education and care providers are available (both centre-based and family-based) raising challenges with respect to ensuring consistency in quality. The responsibilities for regulations and standards setting and curriculum development are at the level of cantons, and consistency is not ensured across the nation. The government has developed a unified curriculum from birth to four years "the Orientation Framework for Early Childhood Education and Care" that helps set the basis for quality control but monitoring of its implementation is lacking (OECD 2021d). The authorities should ensure effective coordination and monitoring to safeguard quality across different providers, including by making sure that children benefit from equal learning and development opportunities. Ensuring a qualified workforce in the sector is also warranted, including by providing incentives for life-long professional development.

Reforming taxation of second earners to reduce disincentives to work is another avenue to boost female full-time labour participation. A popular initiative has been launched in 2021 calling for individual-based rather than family-based income taxation, as recommended in a previous OECD Economic Survey (OECD 2017a). Following a Parliament request, the Federal Council is also currently assessing various individual taxation models. Reducing the second earner marginal effective tax rate could also be achieved under the current, family-based, setting, for instance, by adjusting the marginal tax brackets for joint filers or providing tax deduction (or allowance) for the second earner.

The statutory federal paternity leave of two weeks is short by international standards. It has been recently introduced, which is a step in the right direction, but due to its short length, its impact on mothers' post-maternity reintegration into the labour force remains questionable. There is a wide heterogeneity of policies across OECD countries, but on average, the length of paid leave reserved for fathers is eight weeks. This is because many countries complement paternity leave with entitlements to paid parental leave or home care leave reserved to fathers, which are not available in Switzerland. Establishing a federal statutory parental-leave system (to be divided between parents) as in most European countries would provide additional support to mothers wishing to reintegrate into the labour force faster. For instance, for Denmark, Druedhal et al. (2019) found that the increase in earmarked leave for fathers led to shorter maternal leave and an increase in mothers' earnings for up to eight years after birth. While the results in terms of women labour market outcomes are more mixed for Sweden and Norway (see for instance Dalh at al., 2014 and Ekberg et al., 2013), Patnaik (2019) shows that in the province in Quebec, Canada, the introduction of parental leave reserved to fathers increased the likelihood for women to work full-time. Moreover, a number of studies shows that fathers who take more parental leave are more involved in children activities later on (see for instance Almqvist and Duvander, 2014 and Huerta et al. 2013) which could help change social norms in terms of parental task specialisation.

The large gender pay gap is not only due to the large incidence of female part-time employment. Even when working full time, women earn on average 19% less than men, one of the widest gaps in the OECD. According to the Federal Statistical Office estimates (FSO, 2021), about 45% of this gap cannot be explained by factors such as professional status, years of services, sector of activity or level of education. Moreover, this unexplained difference has increased since 2014.

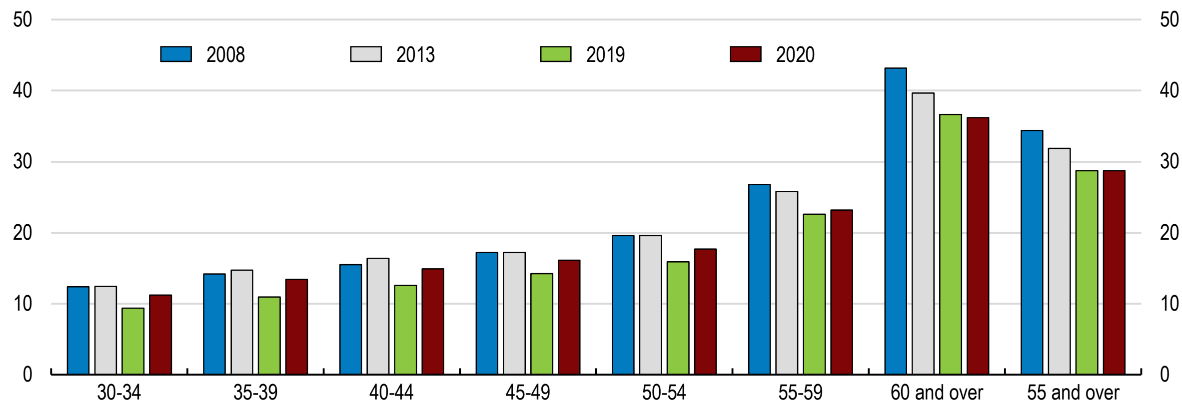
A law was passed in 2018 that requires companies with over 100 employees to conduct regular gender pay audits and inform employees and shareholders of the results. While welcome, these measures do not help address gender pay gap in smaller enterprises where the FSO finds the largest unexplained wage difference. To raise awareness of the issue, the federal government launched in December 2020 the Logib 2 pilot initiative. The tool enables all employers to carry out a gender equal pay analysis and unlike its previous version, is suitable for smaller organisations and companies (from 2 to 49 while the initial Logib tool could only be used by firms with more than 50 employees). The government could collect these data and set-up a salary comparison website for workers in domestic firms to raise awareness of gender discrimination and facilitate corrective actions. Korea, for instance, has recently introduced this type of website, which shows salary brackets of private sector employees according to six criteria – firm size, type of business, occupation, job career, gender and academic background (OECD, 2020g).

Supporting the employment of older workers

The rise of unemployment among workers aged 55-64 since the beginning of the pandemic raises concerns. Once unemployed, older workers find it more difficult than prime-age workers to reintegrate into the labour market (SECO 2019a, SECO 2021). The risk of long-term unemployment is accordingly significantly higher for older workers (Figure 2.19). Swiss cantonal employment offices identify a number of barriers to reemployment of workers aged 50 or more: employer's preferences, high reservation wages, employees' lack of confidence or skills to effectively search and apply for jobs, narrow specialisation, weak computer skills and health status (Egger, Dreher and Partner AG, 2019).

Figure 2.19. Incidence of long-term unemployment increases with age

Incidence of long-term unemployment (1 year and over) by age group, %



Source: OECD calculations based on SECO.

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To support older workers' re-employment, the authorities launched a reform package that includes additional spending on activation policies for older workers. New measures include a pilot program for 2020-2021 providing free situation analysis and career guidance for workers aged 40 and over that should be extended to all cantons over 2021-2024. While in Switzerland people are not granted access to activation policies funded by the unemployment insurance for two years after the expiration of their unemployment benefit entitlements, an exceptional access to training is granted for jobseekers aged over 50. Additional funding is also allocated to cantons for 2020-2024 to enable them to better support hard-to-place jobseekers, especially seniors, with more individualised measures such as counselling, coaching or mentoring. While welcome, these reforms are only temporary. An assessment of their efficiency should be carried out to expand them if they bring positive results.

The Federal Act on Transition Benefits for Older Unemployed persons was adopted by parliament in June 2020 to supplement these activation policies. Starting in 2021, it introduces transition benefits up to retirement for individuals aged 60 or over who have exhausted their unemployment benefits. These benefits are means and asset tested. Eligibility conditions also require at least 20 years of contributions to the pension scheme of which at least five years after the age of 50. Still, the scheme risks reducing incentives for eligible people to undertake training and to search for work before reaching the age of 60. Such effects have been observed in Finland (OECD, 2018d) and Poland (Gałecka-Burdziak and Góra, 2017). Supplementing eligibility conditions with requirements to participate in community services or continue looking for a job would mitigate this risk.

Financial disincentives for employers also weigh on the employment of seniors. As in many OECD countries, wages rise with seniority, raising the risk that older workers' wages grow above their productivity. In Switzerland, the salary gap between workers aged 55-59 and workers aged 25-29 in full employment is above the OECD average (OECD 2014). Moreover, minimum contributions to the second-pillar pension funds rise with age, with employers paying at least half of them. Currently, the contribution rate represents 7% of the insured salary for the 25-34 age group, 10% between 35 and 44, 15% between 45 and 54 and 18% for older workers. This creates disincentives to hire older workers.

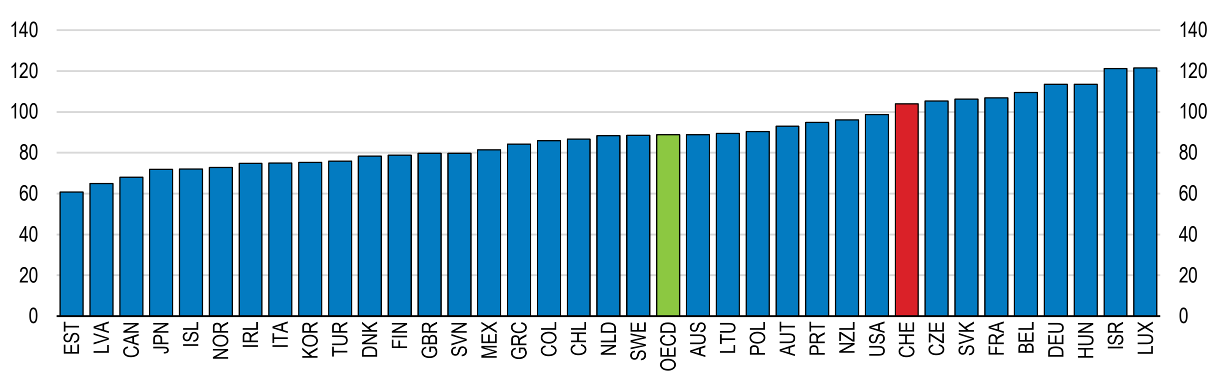
Ways to introduce greater flexibility to the pay system should be discussed with social partners. In Korea, for instance, where seniority has a large impact on wages, the authorities have worked with social partners to develop new criteria and better connect wage-setting practices with job requirements and skills (OECD 2018e). In 2020, the Federal Council proposed a reform of the second pillar inspired by an earlier proposal of three out of four main social partners which includes a provision to flatten the contribution rates. Only two different contribution rates would be maintained, at 9% for workers aged 25-44 and at 14% for older workers. For workers aged 55 and over it would lead to a significant decline in the contribution rate, a welcome development to improve their employability. An alternative way to achieve this goal would be to adjust employers' contribution to a flat rate so that only employees' contributions increase with age.

Raising skills and lowering inequities in education

Switzerland has a comparatively well-educated and skilled population, but inequities in education were a concern even before the pandemic. The latest Programme for International Student Assessment (PISA), in 2018, pointed to similar or above OECD average performance of 15-year old students in the three tested competencies - reading, numeracy and science proficiency – but also to a significant gap in performance between socio-economically advantaged and disadvantaged students in reading (Figure 2.20). With a difference in score of 104, the gap is larger than in the OECD on average (89), and has widened over the last decade (OECD 2018e). School principals report less staff shortages and material shortages than the OECD average but disadvantaged schools, where disadvantaged students tend to be more often clustered (OECD, 2017a), are more likely to experience teacher shortages.

Figure 2.20. Performance in reading varies widely across socio-economic groups

Gap in reading performance between advantaged and disadvantaged groups, score difference, 2018



Note: A socio-economically advantaged (disadvantaged) student is a student in the top (bottom) quarter of ESCS (PISA index of economic, social and cultural status) in his or her own country.
Source: OECD, PISA 2018 Database, Table II.B1.2.3.

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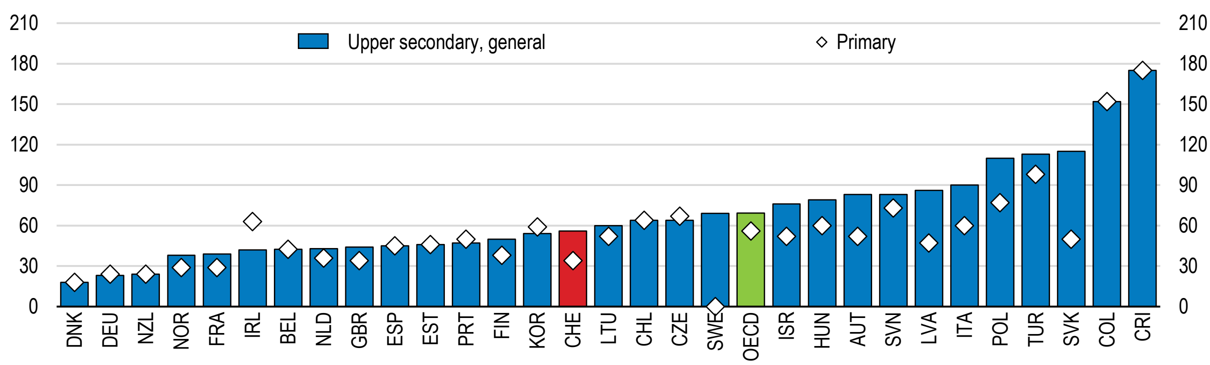
The COVID-19 crisis has reinforced inequities in education as students from disadvantaged socio-economic groups are more vulnerable to learning losses during school closures. They are not only less likely to have access to a quality education, but they are also less likely to benefit from digital infrastructure, a quiet place to study and a supportive environment for effective distance learning (OECD 2021c). In Switzerland, during 2020, schools were closed for about 35 instruction days in primary education and 55 instruction days in secondary education, below the OECD average (Figure 2.21). Indeed, during the pandemic, the Swiss government placed a high priority on face-to-face teaching, especially for younger students. Still, learning losses can be substantial. Based on the results of an online survey conducted in Austria, Germany and Switzerland, Huber and Helm (2020) find that a sizeable portion of students reported learning at home during the first two weeks of the lockdown for at most two hours per day. Across the OECD economies, a number of studies point to a large variation in children's learning experience during school closures across family income and parents' education (Stantcheva 2021). In the Netherlands for instance, Enzgell et al. (2020) find that learning delays were much more pronounced among students with less educated parents. In the United States, Chetty et al. (2020) document a large divide in progress for math lessons completed online across income groups with the gap growing over time.

Figure 2.21. The pandemic crisis led to widespread closure of schools

Number of instruction days where schools were fully closed, 2020



Note: Data for United Kingdom refer to England only. Most typical number of instruction days for Colombia, Germany, Italy, New Zealand and Slovak Republic. Minimum number of instruction days for Denmark.
Source: OECD/UNESCO-UIS/UNICEF/World Bank Special Survey on COVID. March 2021.

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School closures during the pandemic further raised awareness of these inequalities. Many OECD countries, including Switzerland, took action during the crisis to improve inclusiveness in distance education (OECD 2021c). This included flexible and self-paced digital platforms, agreement with mobile communications operators and internet firms to enhance access and provision of additional economic support to lower-income households. However, and in contrast with most OECD countries, in the survey on Joint National Responses to COVID-19 School Closures Switzerland did not report any measures to assess gaps in student learning accumulated during the schools closure nor remedial measures to address gaps (OECD 2021c). In France, for instance, the initiative Devoirs Faits, which supports students with completing their homework through dedicated time at school, was strengthened in September 2020 to support students with educational challenges during the pandemic. The results of experiments of free individual tutoring online for disadvantaged middle school students in Italy and online peer-mentoring for university students in Germany are encouraging. They significantly improved student academic performance, studying behaviour and motivation (Stantcheva, 2021). Such interventions could be experimented in Switzerland through pilot programs as they could be beneficial even after the crisis, allowing children from disadvantaged socio-economic background to have access to extra time, mentoring and support.

The Swiss education system is renowned for its high focus on vocational education and training (VET) and emphasis on apprenticeship training. With more than two thirds of Swiss young people (aged 15-20) enrolled in the VET system, the impact of the crisis on the apprenticeship market became a major concern. Students in the vocational stream can sign-up for a two- to four- year apprenticeship after completion of lower-secondary school. Potential apprentices go through a recruitment process and a training contract is drawn up between the apprentice and the firm offering the apprenticeship, a necessary pre-condition to start the VET program. The programme typically involves a dual engagement of practical work and study (OECD 2017a). This means that the crisis affected apprentices' training via two major channels, the closure of vocational training centres and the closure of firms in the most affected sectors. In addition, the widespread use of teleworking may have made training in the workplace more difficult and less effective as practical aspects of the training could not be delivered.

Despite the pandemic and the slowdown in the labour market, early-2021 data shows that Switzerland has been quite successful in supporting matches between firms and students. By end-February 2021, a third of the students looking for an apprenticeship for the summer 2021 had already signed a contract, a share comparable to previous years (SERI 2021). Government measures supported this outcome. Virtual outreach has been reinforced, including through the development of online job markets. The federal authorities have also created a specific program (Apprenticeships COVID-19) that helps finance measures in favour of apprentices' insertion in the labour market. The Confederation funded up to 80% of the costs of these measures with expenditures amounting to CHF 23 million as of October 2021. Targeted areas include applicants' mentoring or coaching and development of new training models in sectors affected by the closure of many businesses. Financial support can also be requested by firms, to create positions or maintain existing contracts. Earlier in the crisis, the resilience of the apprenticeship system was also supported by enlarging the eligibility of the STWC to apprentices. On the other hand, and in contrast to some other OECD economies, Switzerland does not report specific measures targeted to the vocational and training system to assess or make up for the potential learning gap (OECD 2021c). In Estonia, for instance, vocational students benefited from additional study time. Expanding the duration of programs could also be considered for apprenticeships in the most affected sectors. In South Korea, for example, an extension of the training period or flexible training time has been allowed (OECD 2020f).

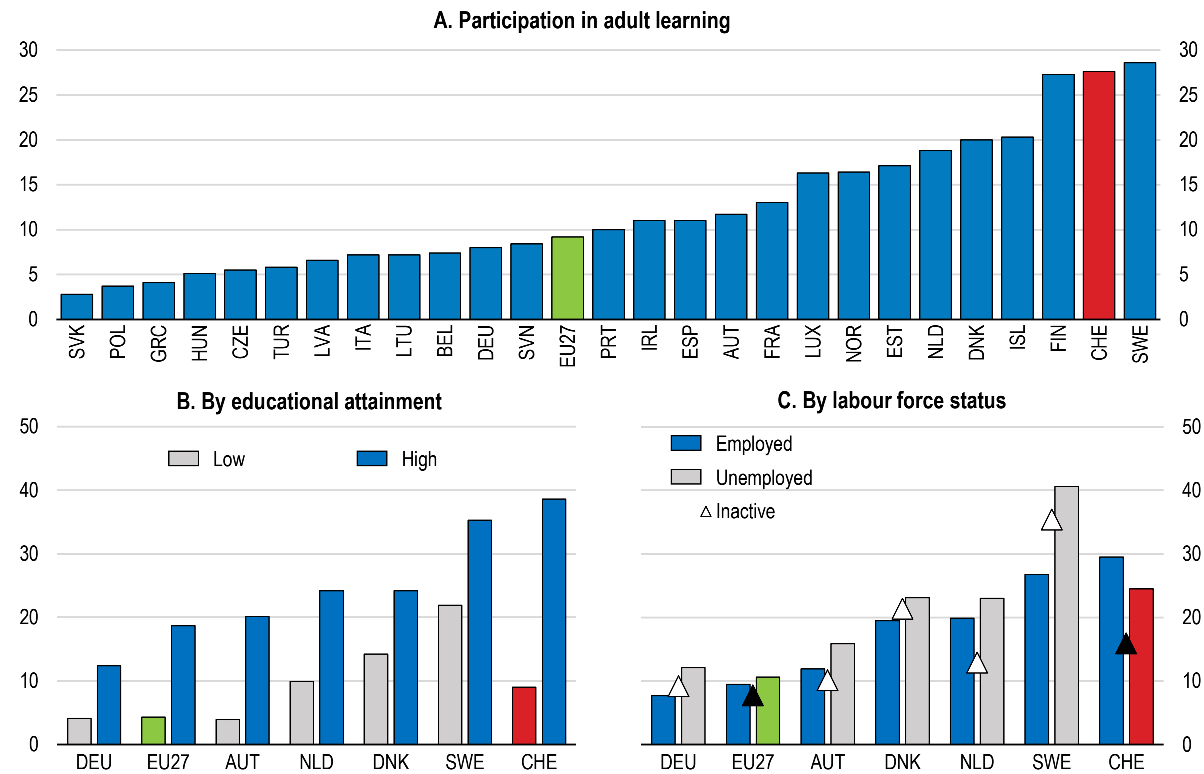
Going forward, technological change and increased digitalisation is a major challenge for vocational and educational training (VET) systems as it alters patterns of demand for both technical skills and key competencies. Technological progress puts a number of jobs at risk of disappearing due to automation (Vandeweyer and Verhagen, 2020), while creating new job opportunities. With workers likely to change tasks and occupation more frequently over a longer work-life span, a strong grounding of cognitive skills becomes more important. To some extent, the Swiss VET system is well-positioned to address this challenge as a number of extensions of the curriculum and flexible education pathways offer opportunities to vocational students to gain higher qualifications including through tertiary education. As a result, about one third of young VET graduates work in high-skill occupations, a share significantly above the European average of 18% (Vandeweyer et al, 2020). However, a majority of apprentices do not choose the path to tertiary education and overly narrow specialisation of VET students could become a concern. While an obvious solution would be to reinforce the academic component in VET upper-secondary curricula, it may have some detrimental effects on the motivation of students (Vandeweyer et al, 2020, OECD, 2017a). It is therefore crucial that VET graduates have continued opportunities to up-skill and re-skill after entering the labour market.

With evolving skills demand, the necessity to offer opportunities for adult learning is not only pressing for VET students but also for less qualified workers. While participation rate in life-long learning in Switzerland is one of the highest among European countries, the participation rate is significantly lower for groups of workers with less education or out of work (Figure 2.22). The pandemic has accentuated this pattern: while the decline in participation affected all groups of workers (compared to 2019, participation declined by 18% in 2020 for the 25-74 aged resident population) it was more pronounced for people with secondary education or lower. Recent data also point to a disproportionately high decline in participation for older workers (FSO 2021b). With lower digital skills than younger workers (Figure 2.23), they may have been less able to benefit from virtual training during the pandemic.

The Continuing Education and Training Act, which came into force in 2017, provides a framework for government action in broadening access to adult education. Through this law, the federal government co-finances cantonal programmes for the promotion of basic skills for adults. A recent initiative of the government ("Simplement mieux!... au travail") subsidises employer-provided training in basic skills training, including IT. It should help better target adult learning toward low-skill workers. Subsidies or vouchers for targeted groups could also be considered. Such initiatives are already implemented at the cantonal level. Twenty-one cantons have established basic skills promotion programs which provide subsidised training opportunities for all adult residents.

Figure 2.22. Participation in adult learning is high but should be broadened

Percentage of population aged 25-64 participating in education and training during the last 4 weeks, 2020



Note: Includes formal as well as non-formal education and training. The reference period for the participation is the four weeks prior to the interview. Low education refers to below upper secondary education (ISCED 0-2) and high education refers to tertiary education (ISCED 5-8).
Source: Eurostat database.

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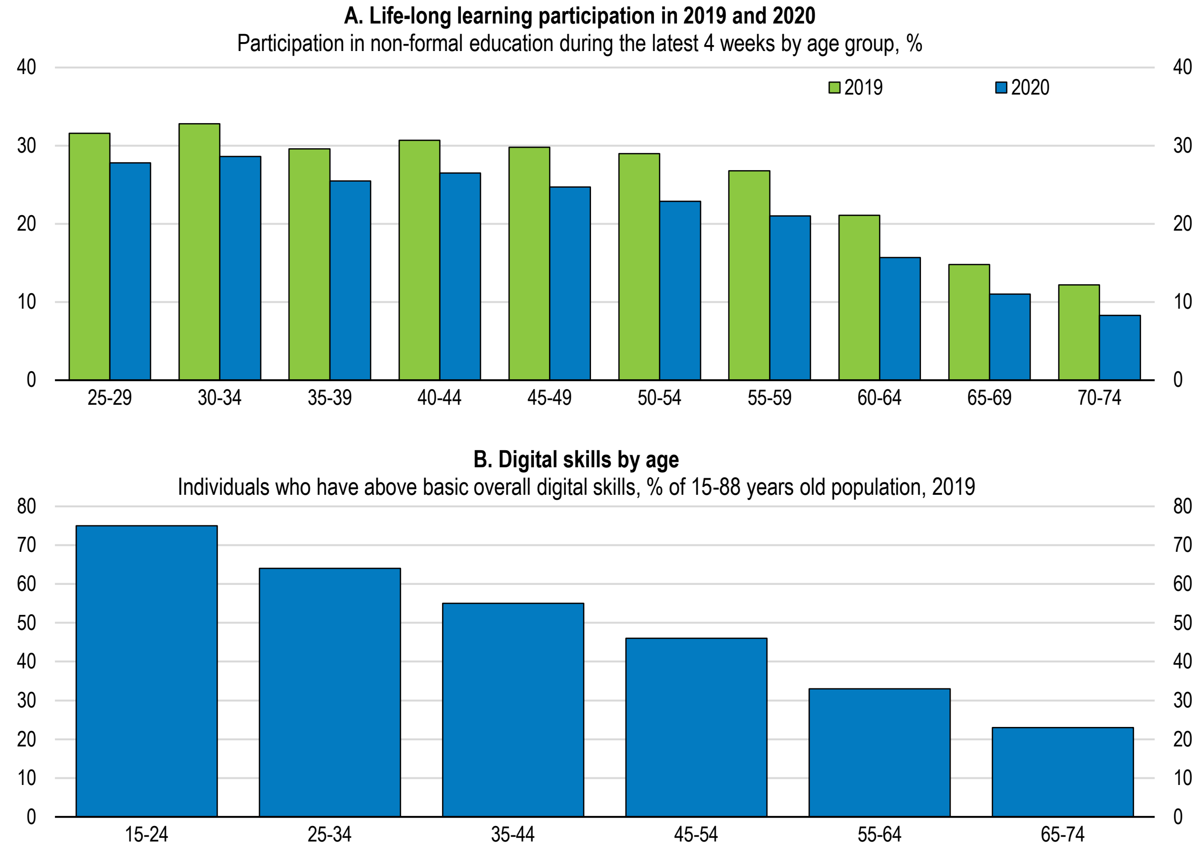
Figure 2.23. Participation in life-long learning has declined during the pandemic, especially for older workers who tend to have lower digital skill



Source: FSO, Swiss Labour Force Survey (SLFS), FSO, Omnibus TIC survey.

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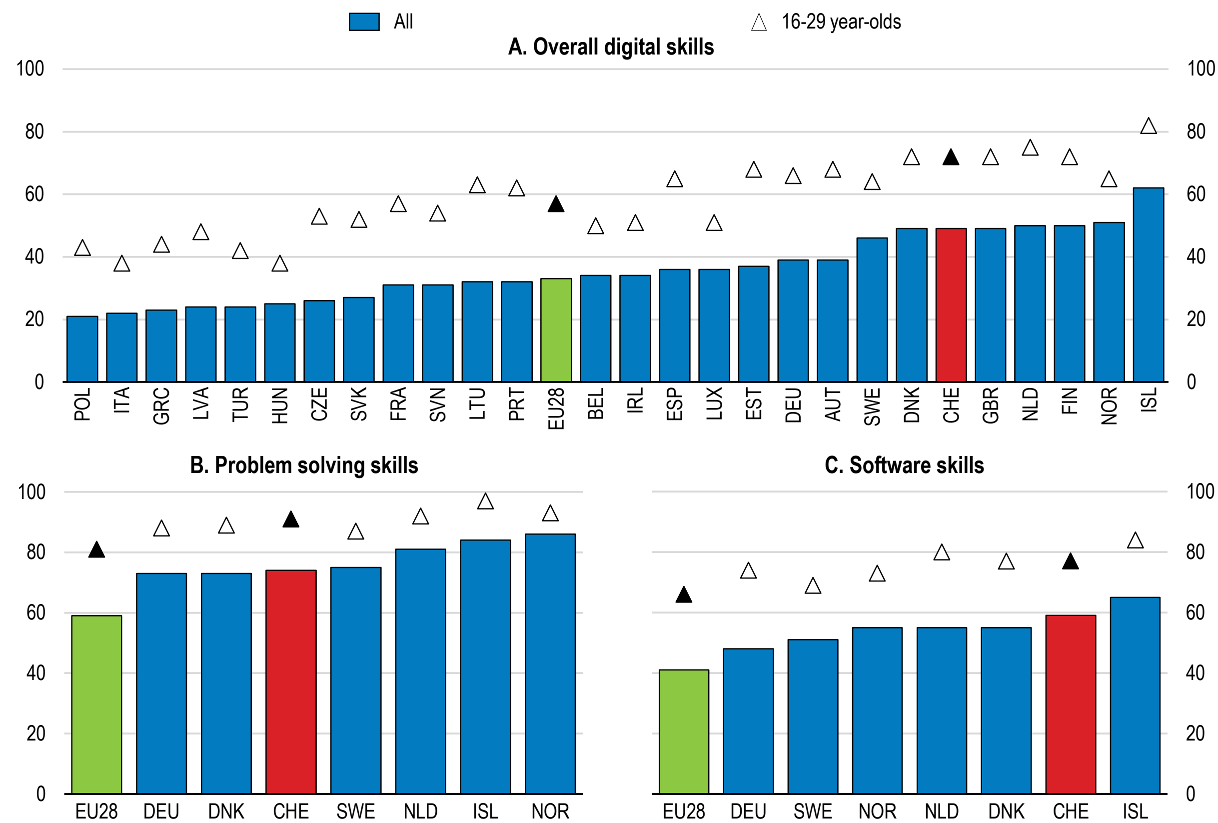
For all workers, raising intermediate and advanced digital skills will be essential to foster stronger productivity growth. ICT-related sectors displayed high vacancy rates before the pandemic and their activity has rebounded sharply after the ease of restrictions. The advanced IT-related skills of Swiss adults are comparatively high, especially for young people, but lag top performers (Figure 2.24). Raising the number of graduates from scientific and technical fields would help address shortages in the medium term. This would require encouraging female participation in these fields which tends to be very limited (OECD 2017a). Moreover, as mentioned in the previous surveys (OECD 2017a, OECD, 2019a), easing immigration requirements from non EU-countries would also help limit skills shortages. Swiss university graduates from non-EU countries, for instance, have only 6 months to find a job after completing their studies to be allowed to stay in Switzerland. According to Economiesuisse, the Swiss Business Federation, only 10-15% of these students remain in the country after their studies. The Swiss parliament has recently given the Federal Council a mandate to facilitate the stay in Switzerland and access to the labour market for third-country nationals with Swiss university degrees in areas with a proven shortage of skilled workers.

Figure 2.24. Swiss adults' digital skills are solid but lag the top performers

Share of the population with more than basic skills, %, 2019



Source: Eurostat, Digital Skills database [isoc_sk_dskl_i].

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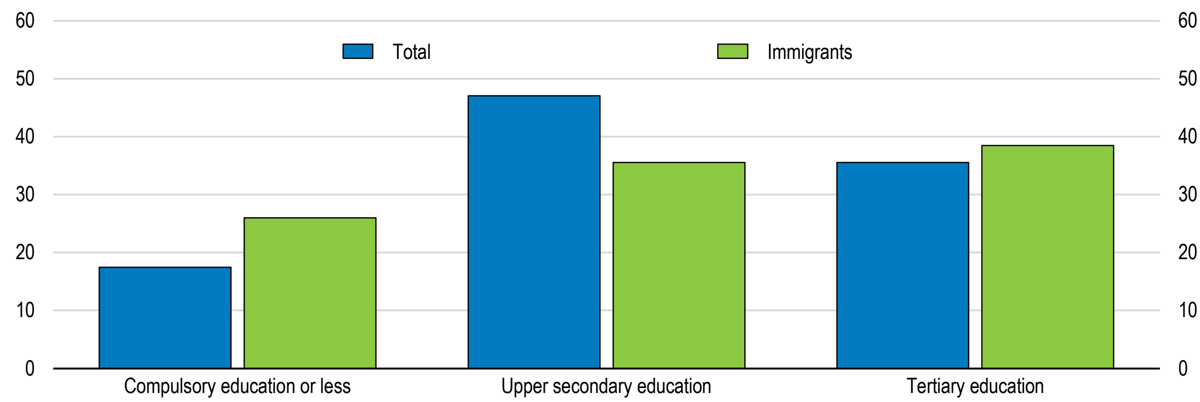
Better integrating immigrants into the labour market is essential to foster labour force participation and productivity by better harnessing their skills. Immigrant population represents about a third of the permanent resident population aged 15 and older and is highly heterogeneous in terms of educational attainment. Immigrants are much more likely than natives to have only completed mandatory education but also slightly more likely to have a tertiary education degree (Figure 2.25 and FSO, 2020). With few jobs suited to those with low education and skills in the Swiss labour market (see chapter 1, Figure 1.15, Panel B), the unemployment rate is substantially higher for immigrants who have only completed mandatory education (8% in 2018 compared to 5% for immigrants with upper secondary education and 4% for immigrants with tertiary education). Upskilling low-skilled immigrants is therefore essential to reduce inequalities in the labour market and strengthen labour utilisation in the economy.

Providing migrants with vocational and educational training is also an important avenue towards better labour force integration. Cantons offer pre-VET programmes to young immigrants to help them acquire needed core competencies, including language skills, to enrol in VET programmes. However, an age limit (21 to 23 years) for accessing these programmes is set, limiting the opportunities for older migrants to enter VET. This issue was partially addressed in 2018 when Swiss authorities launched a pilot pre-VET programme specially targeted to refugees with a higher age limit, to up to 35 years. Refugees represent only 4% of all foreign residents in Switzerland but face significant challenges to enter employment as many of them do not speak the local language and have acquired little school education. Early evaluation of the programme shows positive results with two third of the students continuing training in a certifying VET programme (Cedefop/OECD, 2021). In this context, authorities should pursue the initiative and consider extending it to a larger group of migrants by raising the age limit for access to pre-VET programmes.

Figure 2.25. Immigrants have heterogeneous educational attainment

Education attainment by group of population, % of population aged 15 years and older, 2019



Source: FSO, Swiss Labour Force Survey (SLFS).

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Broader and faster recognition of foreign qualifications would also facilitate immigrants' integration into the labour market and potentially reduce skill-mismatches. To get a certified VET qualification in Switzerland, it is possible to ask for validation of prior formal or informal learning at the cantonal level but the process is long and cumbersome. It requires language skills as a comprehensive validation dossier must be compiled, so that professional experts can assess the equivalence of competencies. Moreover, validation procedures only exist for 20 of about 230 initial VET qualifications and are not offered in all cantons (Cedefop/OECD, 2021). Therefore, regular or shortened apprenticeships are often easier and quicker ways for many adult refugees to get VET qualifications certified (Spadarotto, 2019). Measures to simplify the recognition process of foreign qualification would improve efficiency.

Main findings	Recommendations
Facilitating job reallocation	
The extensions to the short-time working compensation scheme during the pandemic have adequately protected workers and firms but risk hindering job reallocation and restructuring during the recovery.	**Once most restrictions are lifted, scale back the short-time working compensation scheme and reintroduce firms' financial participation to the costs of the scheme.**
Workers on short-time working compensation scheme have a higher risk of losing their job and they increase their job search efforts. Follow-up of their situation by the public employment services is hampered by the lack of information on beneficiaries.	Collect more information on the beneficiaries of the short-time working compensation scheme to enable more effective follow-up of their situation by the employment services. Promote the voluntary registration of workers on protracted spells of short-time working compensation scheme to public employment services and provide incentives for training.
Active labour market policy programs are well provisioned and flexible but display large differences of placement outcomes across cantons.	Ensure that cantonal strategies to boost job recovery are developed. Strengthen active labour market policies at the cantonal level by promoting good practices for efficient job placement of targeted groups.
Long-term unemployment is rising. In crisis time, financial incentives have proven especially effective to improve employment prospects of long-term unemployed workers. Administrative barriers and lock-in effects due to strict rent controls weigh on geographical mobility.	Expand the use of financial incentives to facilitate the return to jobs of unemployed workers. Foster geographical mobility by adjusting the tenancy law to reduce restrictions on rent increases, accompanied with targeted housing allowances. Reduce barriers to internal mobility of licensed professionals.
Increasing labour market inclusion	
The gender income gap is high in Switzerland, in part due to high incidence of part-time employment. The interplay between the tax and benefit systems and a high cost of childcare result in lower working hours and lower labour incomes for women.	**Keep expanding the supply of childcare and provide targeted measures (mean-tested fee reductions, childcare benefits or tax credits) to improve affordability.** Ensure effective quality control of childcare providers' services. **Reduce disincentives to work for second earners, by moving from family-based to individual-based taxation or through tax adjustments and slower withdrawal of benefits.** Expand paternity leave with a statutory parental leave system with entitlement reserved to fathers.
Once unemployed, older workers have more difficulties than prime age workers to find a job due to narrow specialisation and lack of job search experience. Rising pension contribution rates with age also plays a role.	Flatten the age-related progressivity in pension fund second-pillar contribution rates. Assess and, if effective, scale-up pilot activation programs for older workers.
Raising skills and lowering inequities in education	
Students from a disadvantaged background are significantly more likely to underperform and less likely to graduate with a tertiary degree. In addition, school closures and distance learning during the pandemic are likely to have disproportionally affected disadvantaged students.	**Improve access to early childhood education and care for low-income households.** Assess learning gaps that occurred during the pandemic and provide remedial measures targeted to disadvantaged students.
Immigrants' unemployment rate is more than twice higher than Swiss natives and a relatively higher share of migrants did not study beyond mandatory school.	Broaden access to programmes aiming at providing pre-vocational education and training qualifications to low-skilled migrants by increasing the age limit to participate. Simplify and speed-up the process for recognition of foreign qualifications.
Switzerland faces shortages of skilled labour, including in the ICT sector.	Ease non-EU immigration restrictions and allow non-EU students more time to search for a job in Switzerland after completion of their studies.

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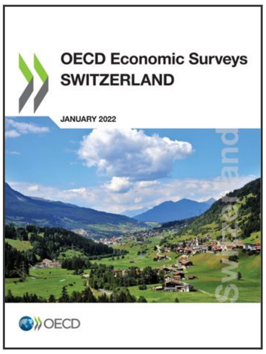

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