



Employment Rate Potential in the Nordic Countries

An overview

Ilkka Virjo

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Nordic Council of Ministers

Store Strandstræde 18
DK-1255 Copenhagen K
Phone (+45) 3396 0200
Fax (+45) 3396 0202

Nordic Council

Store Strandstræde 18
DK-1255 Copenhagen K
Phone (+45) 3396 0400
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Tampere, 16th September 2006
Ilkka Virjo

Summary

Virjo, Ilkka: Employment Rate Potential in the Nordic Countries – an Overview.

Achieving and maintaining high employment rates becomes – along with an ageing population – increasingly important in order to secure the financial basis of the welfare state. Governments seek to mobilise new subgroups of population into employment. However, the Nordic employment rates are already high when compared internationally. It is not self-evident, where the increased employment should come from. Where can the employment potential in these countries be found?

This report pin-points the main possible sources of such potential in Denmark, Finland, Norway, and Sweden. These countries are both similar and different enough in the sense that comparisons can shed new light on the issue.

The main areas studied are: 1) working time and part-time employment, 2) unemployment – especially long-term and chronic, 3) the ageing – including early exit and very late exit, and 4) sickness absence and disability. Unfortunately, e.g. other absence from work along with immigrants and immigration were beyond the scope of this report.

The four countries are compared to the “best pupil in class” in order to point out the possible potential. For instance, Finnish women work much longer hours than women in the three other countries. This indicates that increasing women’s working time is a potential source of new employment for them.

The comparisons have been put together using publicly available sources. In most cases, this means data from Labour Force Surveys as presented in either Eurostat’s or the national statistical institutions’ online databases.

First, the general employment developments in the four countries are presented and discussed. Then, each of the above-mentioned four areas is studied in more detail. Finally, the employment potential found by comparing the countries is listed. Throughout the report, the countries are studied and compared from the perspective of increasing total employment. While the findings only point out possible sources of employment potential, even some of their indications and the possibilities of mobilising such potential are discussed.

Keywords: Labour market, employment, unemployment, employment potential, working time, part-time employment, ageing, absence, disability, the Nordic countries.

1. Employment Rate as a Challenge.

One of the crucial problems that Nordic (and European) welfare states currently face is how to obtain and maintain high employment rates. This problem is emphasised by the ageing of population. Since the share of working-age cohorts is decreasing, it is becoming steadily more important to secure high employment levels within each cohort. The demographic challenge is huge in the Nordic countries. According to UN estimates, old-age dependency ratio (share of population aged over 64 / aged 15–64) will be double compared to the present level in 30 years or so. (see Virjo 2004, 4–5).

Thus, high employment rates are necessary in order to secure the financial basis (i.e. enough taxpayers) of the welfare state. Also, overall pension costs are dramatically reduced if retirement takes place in average one or two years later in the life cycle. Exclusion from employment also implies a growing probability to dependency on various kinds of public support.

Although the employment rate of the ageing cohorts has been in the focus of attention, the problem concerns all age groups. From the point of view of the target of increased employment rate, not only the ageing retire too early but also the young seem to stay too long in education. At least high sickness absence and increased structural unemployment also demand attention when the development of employment rates is considered. Even other reasons to be outside of work force, such as education or parental leaves, may be worth taking into account.

In recent years, the focus has been on employment rates in general, and on the employment rates of the ageing in particular. Many national and international policies have attached themselves to a target expressed simply as a number. For example, the Finnish government aspires after an employment rate of 75 per cent. The EU has several such target rates: 70 per cent in general, 60 per cent for women and 50 per cent for older workers until the year 2010.

However, in real life we can see that the employment rates are in many cases far from the levels aspired. Another crucial indicator is unemployment, but if we combine employment and unemployment, we are still far from 100 per cent even in prime-age groups. In all of the Nordic countries, large parts of the working age population are not in gainful employment. Furthermore, many of the employed do not work full-time.

1.2 Where Is the Employment Rate Potential?

All this has led to a situation, where governments seek to mobilise new sub-groups of population into employment. In the Nordic countries, employment rates are already high when compared internationally, as women are to a large extent on the labour market. Thus, it is not at all self-evident, where the increase of employment rate should come from. To be extreme, we might even say that the governments must utilise all available employment potential. The question arises, where this potential can be found.

In this report, we pin-point the main possible sources of such potential in Denmark, Finland, Norway, and Sweden. Nordic comparisons are particularly interesting in this respect, because the countries are both similar and different enough. This is why they may make important issues more visible for each single country.¹

In other words: the four Nordic countries compared here are similar in the sense that we can reasonably assume that a state existing in one of them is achievable in another. To take a central example, the employment rates of the oldest age groups are considerably higher in Norway than in Finland. This indicates that Finland has a considerable non-utilised employment potential among this part of the population.

The preconditions of a high employment rate are many and complex and they can vary according to the characteristics of different segments of labour force and labour reserves. If the causes of exclusion from employment are structural, they are not directly related to economic fluctuations or the level of labour demand in general. If so, the problem is not the size but the qualitative characteristics of demand/supply and/or institutional arrangements. These factors are not changing along with the business cycle. Thus, co-existence of high unemployment, low employment rate and labour shortage becomes possible.

The identification of structural factors that influence exclusion from employment is of crucial importance for policy making. In this report, we try to identify the areas, where each country *may* have such structural factors or problems.

This report is structured as follows. First, we describe general developments regarding the employment situation in the four countries. Thereafter, we move on to study patterns in working time and part-time employment. After that, we look into unemployment, absence, inactivity and employment rates in different sub-groups of the population. The situation of the ageing – including early exit, unemployment and very late exit – is also discussed along with the role of active labour market policies. Fi-

¹ Iceland, however, is not similar enough in this respect with its different population structure and isolated labour market. This, together with lack of data, puts Iceland out of the focus of this report. In some contexts, even Icelandic data is still presented.

nally, we summarise where the largest employment potential in these four countries seems to be on the basis of these comparisons.

The setting in which the countries are compared implies an existence of an “ideal” Nordic country, where all of the highest employment figures from the four countries would co-exist. Even though the countries are in fact compared to the “best pupil of the class” when it comes to the subject in hand, being on the level of the best in all areas seems to be an impossibility. This is because many phenomena on the labour market are interchangeable. For instance, in studies concerning early exit, it is often found that tightening the conditions of one pathway leads to the increased use of another.

2. Data And Definitions

The statistical comparisons in this report have been put together using publicly available sources. In most cases, the information is derived from Labour Force Surveys (LFS). Most of the survey information has been obtained from Eurostat's online database (<http://epp.eurostat.cec.eu.int>). Some data has been extracted from the databases of the national statistical institutions.

These kind of macro-level data obviously limit the analyses to descriptive comparisons, which point out differences and similarities that may be particularly interesting. Micro-level data would be necessary for deeper analyses, which therefore are beyond the scope of this report. The results presented are meant to be tools and initiatives for further discussion and research, not definitive answers to the problems presented.

Definitions used by Eurostat differ in some points from national and/or conventional ones. They make, however, the LFS results comparable between countries, which is why they have been used.

One of the largest differences when it comes to definitions concerns unemployment, which is often defined differently on a national level than in the Eurostat database. Firstly, the survey definition of unemployment excludes passive job-seekers. This is a large source of differences between LFS and national job-seeker registers.

Secondly, students in search of a job are classified as unemployed according to the international definition. This accounts for the very large difference between the Eurostat figures quoted in this report and e.g. the official Swedish unemployment rate. When interpreting the figures in this report, it should be kept in mind that full-time students seeking for some kind of employment are included in the unemployment figures. Furthermore, it does not matter whether a person is seeking for part-time or full-time employment.

In the time-series constructed from LFS data, the figures are either annual averages or data from the second quarter of the year in question. For some countries, older data was not available for other quarters; for the sake of coherence, the same quarter is used throughout the report. One should bear in mind, however, that the second quarter highlights the above-mentioned difference in unemployment rates, as many students are then seeking employment for the summer.

There was a major statistical reform of the labour force survey in Sweden in February 2005. Since then, their survey has been harmonized with other EU countries. Thus, the results from the second quarter of 2005 (e.g. Tables 1 and 2) should be fully comparable between the coun-

tries. Earlier data are not fully comparable, and the definitions cannot be harmonized afterwards.

In Sweden, the “old” LFS as used by Eurostat also included job-seeking students into unemployment, but there was a filter question which contributed to most of them being excluded from the unemployed. The removal of the filter question has made the figures comparable with other countries, and at the same time increased the EU-defined unemployment especially for the second quarter of the year substantially.

Thus, when comparing time series between Sweden and other countries, the reader should focus on changes in time – not direct differences between Sweden and the other countries. In order to make year 2005 comparable with earlier years, we have in some cases used data for the first quarter of 2005 for Sweden – even though the first quarter differs from the second in some respects. All other values are either annual figures or data for the second quarter of the year in question.

Even though the focus is on Denmark, Finland, Norway, and Sweden, even Iceland and the European Economic Area (“EEA18” including the 15 “old” member states of the EU plus Norway, Lichtenstein and Iceland) are included in some graphs for comparison.

3. Employment in the Nordic Countries

In Figure 1, we see the development of the indicator generally considered most important. Employment rate alone suggests that Iceland's situation is very different from the other Nordic countries. At the same time we see differences between the four other countries.

At the worst stage of the recession in 1995, Finland had an employment rate that was over ten percentage points below the other Nordic countries, barely reaching the general European level. Even though Finland still has the lowest rate, it has caught up the others remarkably. This is especially due to the better situation of the ageing workforce, whose situation began to improve remarkably in 1998.

Denmark and Norway have had the highest employment rates of these four countries, having a quite steady rate of about 75 per cent in the recent years. Sweden falls in between, although it nearly reached the level of Denmark in 2001. Since then, the Swedish employment rate has decreased somewhat.

All in all, the two peaks (Finland 1999 and Sweden 2001) draw most attention to themselves in this Figure.

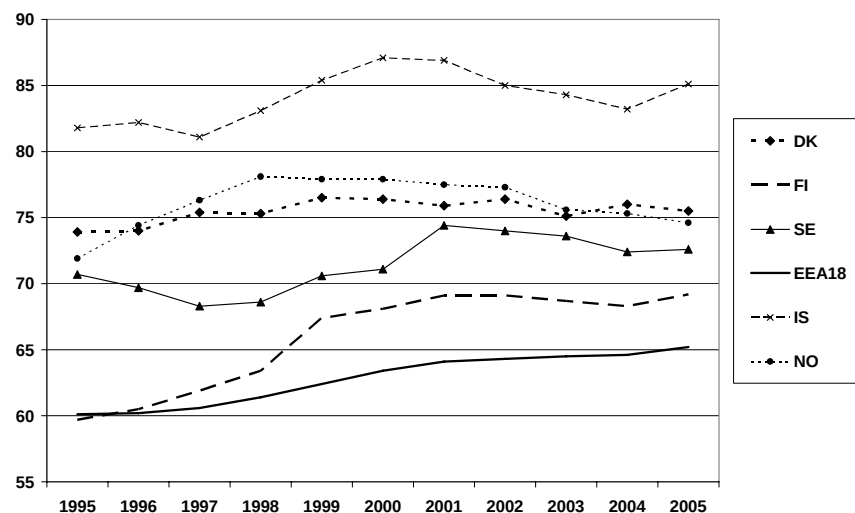


Figure 1 Employment rate for 15–64-year-old population. Source: Eurostat – Labour Force Survey; data from the second quarter of the year in question.²

² Even for Sweden; the definition of employment rate did not change when the LFS was reformed.

In Tables 1 and 2, we have put together some key figures about the labour market status of the “working-age” (15–64) population in the second quarter of 2005. The major difference between the two presentations is that in Table 1, many shares have been counted within the group in question (e.g. part-time work as a share of total employment, involuntary part-time’s share of part-time employment). In Table 2, all percentages have been counted as a share of population aged 15–64 (e.g. part-time workers’ share of population, involuntary part-time workers’ share of the population). From the perspective of employment rate potential, the latter presentation might be more illuminating.

The Tables provide only a cross-section at one point in time, while many of the Figures presented in this report show changes over time. However, there is a more broad amount of information in the cross-sectional comparison, and all figures are fully comparable (that is, all countries have a similarly conducted LFS, which they did not have previously). In both Tables, some data have been derived from other sources or calculated only roughly. This leaves some room for error, but still gives us the big picture.

In the Finnish case, information about sickness absence does even out the employment rate differences towards Sweden and Norway, which are the two countries with highest absence rates. However, Denmark’s absence rate is by far the lowest, which leaves it with a superior employment rate after reducing sickness absence compared to the other three countries.

Table 1 Key figures concerning the activity of 15–64-year-old population, second quarter of 2005.

	Denmark	Finland	Sweden	Iceland	Norway	EEA18
Total population (1 000)	3 567	3 473	5 898	184	3 002	256 787
Employed (1 000)	2 693	2 403	4 280	156	2 240	167 346
Employment rate (share of pop)	75.5%	69.2%	72.6%	84.8%	74.6%	65.2%
Share of full-time employment	78%	87%	74%	81%	72%	80%
Sickness absence rate (2004) ³	1.5%	2.7%	4.0%		3.8%	
-Empl. rate reduced by absence	74.4%	67.3%	69.7%		71.8%	
Hours worked per week on avg. ⁴	36.8	38.4	37.0	43.7	34.9	37.2
-Empl. rate adj. to 40 hrs/week	69.5%	66.4%	67.1%	92.6%	65.1%	60.6%
-Adj. empl. rate reduced by absence	68.4%	64.6%	64.4%		62.6%	
Employers (% of employed)	3.4%	3.5%	3.5%	4.5%	1.3%	4.4%
Self-employed (% of employed)	3.5%	6.5%	4.6%	7.1%	3.8%	7.8%
Family workers (% of employed)	0.3%	0.1%	0.1%			0.7%
Have a second job (% of employed)	11.1%	3.9%	7.4%	10.9%	6.2%	3.6%

To be continued

³ Source: Eurostat LFS data of absence during the whole survey week for *employees aged 20–64*, as presented in: Sjukfrånvaron i Sverige i ett europeiskt perspektiv 1983–2004. Försäkringskassan redovisar 2005:6.

⁴ Source: Eurostat LFS data for other countries than Norway, where this data seems to be corrupt. Total working hours in both main job and extra jobs. For Norway, annual data from SSB Statbank, LFS. Hours per employed person of any age; adjusted employment rate is calculated using this figure, even though it is not precisely for 15–64-year-olds.

Continued	Denmark	Finland	Sweden	Iceland	Norway	EEA18
Share of temporary employment (of all employees) – broken down by reason:	9.1%	15.9%	14.4%	6.4%	8.9%	11.8%
- involuntary	50%	66%	61%	30%	14%	30%
- voluntary	18%	28%	31%	50%	21%	9%
- in educ or training	32%	4%	1%		40%	16%
- probationary period		2%	7%	10%		6%
- no reason given					26%	39%
Unemployed (1 000)	138	258	413	5	110	15 039
Unemployment share of pop	3.9%	7.4%	7.0%	2.7%	3.7%	5.9%
Shares of unemployment within groups:						
Nationals	93%	96%	91%		91%	77%
Non-nationals	6%	3%	9%		7%	11%
Males	46%	51%	53%		55%	52%
Females	54%	48%	47%		46%	48%
15–24	22%	40%	42%		40%	24%
25–39	35%	24%	31%		35%	38%
40–49	19%	17%	14%		15%	20%
50–64	24%	19%	13%		10%	17%
At least 12 months	25%	22%	14%		16%	41%
At least 24 months	9%	10%	5%			24%
Inactive population (1 000)	736	813	1 205	23	652	74 402
Inactivity share of pop	20.6%	23.4%	20.4%	12.5%	21.7%	29.0%
"Not seeking employment because:"						
Awaiting recall to work (on lay-off)			0%			0%
Own illness or disability	29%	27%	30%	35%	24%	8%
Familiar or personal responsibilities	7%	10%	4%	13%	6%	14%
In education or training	33%	22%	25%	26%	22%	20%
Retired	23%	15%	10%		4%	17%
Think no work is available	1%	5%	3%		1%	3%
No reason given			3%	13%	34%	23%
Other reasons	2%	10%	11%	4%	5%	10%
Other inactive pop	4%	11%	13%	9%	4%	4%

Source: Eurostat – Labour Force Survey (exceptions marked with footnotes).

Table 2 Key figures for the 15–64-year-old population

	Denmark	Finland	Sweden	Iceland	Norway	EEA18
Total population (1 000)	3 567	3 473	5 898	184	3 002	256 787
Employed	75.5%	69.2%	72.6%	84.8%	74.6%	65.2%
full-time, employees	53.8%	53.1%	47.5%	58.7%	49.9%	43.7%
employers+self-empl	5.2%	6.9%	5.8%	9.8%	3.8%	8.0%
family workers	0.2%	0.1%	0.1%			0.4%
Involuntary part-time	2.7%	2.6%	4.3%		2.8%	2.5%
Voluntary / other part-time	13.4%	6.4%	12.8%	16.3%	18.1%	10.4%
Second job holders	8.4%	2.7%	5.4%	9.2%	4.6%	2.4%
Share of temporary employment	6.8%	11.0%	10.4%	5.4%	6.6%	7.7%
Unemployment, total	3.9%	7.4%	7.0%	2.7%	3.7%	5.9%
Non-nationals	0.2%	0.2%	0.6%		0.3%	0.7%
Females	2.1%	3.6%	3.3%		1.7%	2.8%
15–24	0.9%	3.0%	2.9%		1.5%	1.4%
25–39	1.3%	1.8%	2.2%		1.3%	2.3%
40–49	0.7%	1.3%	1.0%		0.6%	1.2%
50–64	0.9%	1.4%	0.9%		0.4%	1.0%
At least 12 months	1.0%	1.6%	1.0%		0.6%	2.4%
At least 24 months	0.4%	0.7%	0.3%			1.4%

To be continued

					Continued	
Total inactive population	20.6%	23.4%	20.4%	12.5%	21.7%	29.0%
Retired	4.7%	3.6%	2.1%		0.8%	5.0%
Ill / disabled	6.0%	6.2%	6.1%	4.3%	5.2%	2.4%
In education or training	6.8%	5.2%	5.1%	3.3%	4.7%	5.9%
Awaiting recall to work (on lay-off)			0.1%			0.1%
Familiar or personal responsibilities	1.5%	2.4%	0.8%	1.6%	1.4%	4.1%
Think no work is available	0.1%	1.1%	0.7%		0.2%	0.9%
Other inactive pop	1.4%	4.8%	5.6%	3.3%	9.2%	10.7%
People in active labour market policy measures						
(included in one or more of the previous groups in the LFS, data for Norway from 2004) ⁵						
Share of population	3.3%	2.5%	3.1%		1.1%	
Compared to the level of unemployment (how many participants per unemployed):						
	0,86	0,34	0,45		0,31	

All percentage shares are counted as shares of the whole population aged 15–64. Second quarter of 2005, source: Eurostat – LFS, exceptions marked with a footnote.

One must remember that only absence lasting the whole survey week is included in these data. In reality, the impact of absence on employment rate is much heavier, while many sick leaves only last a couple of days. For instance, the Norwegian figure for all sickness absence of employees in 2004 was 7.1 per cent.⁶

Another important thing that strikes us is that the share of part-time employment is a major factor behind the differences in employment rates. In Sweden and Norway, less than half of the working age population are “normal” full-time employees. Finland’s low employment rate is compensated for by the fact that a much smaller minority works part-time than elsewhere. This in turn can be seen in the average working hours, where Finland is the clear number one – after Iceland, of course, where people do not seem to have any free time at all.

For comparison, we have calculated an employment rate adjusted to full-time (40 hours per week) employment.⁷ Furthermore, we have calculated both an employment rate reduced by sickness absence and a full-time adjusted rate reduced by absence.⁸ As we can see, Denmark’s posi-

⁵ Sources: Statbank Denmark. Arbetsmarknadstyrelsen (www.ams.se), Sweden. Finnish Labour Review 1/2006. SSB Statbank, Norway – 15–64-year-old participants at the end of June 2004. Note: participants can be classified as employed, unemployed, or inactive in LFS and it is not possible to distinguish them from these groups.

⁶ Source: StatBank, www.ssb.no. Comparable figures of all sickness absence for the different countries do not exist.

⁷ This has been calculated by using the average hours worked of all workers – not just the ones aged 15–64, because that figure was not available. This leaves some room for error: for instance, more people over 65 work in Norway, and they tend to work less. This might have an effect on the Norwegian figure. However, when studying working time statistics both from Eurostat and SSB:s StatBank, it seems that there is an indisputable, large difference in hours worked even for prime-age and “working age” people.

⁸ Again, we have not made any assumptions as to whether e.g. part-time workers are absent more than others – even though this seems to be the case for Sweden in general and for Norwegian women (Sjukfrånvaron ... 2005) – so the straightforward calculation leaves room for error. However, the differences in absence rates are so large that they cannot be explained by any error in the calculations.

tion with the by far highest employment rate of the four prevails after these calculations.

Finland, on the other hand, does much better when comparing the rates calculated this way. From having the worst employment rate of all, it passes Norway when hours worked are taken into account. When both hours worked and sickness absence are taken into the equation, Finnish employment rate is higher than in Sweden or Norway.

The Norwegian drop is huge. After these calculations, Denmark has the highest rate, Norway the lowest, with Finland and Sweden in between.

Some differences between the countries are worth noting, even though they are not in the focus of this report. For instance, temporary employment contracts are far more common – and more often involuntary – in Finland and Sweden than in Denmark or Norway.

Furthermore, there are by far less employers in Norway than elsewhere. Also, there are great differences in the share of people holding a second job. This is three times as common in Denmark than in Finland, with Sweden and Norway in between. From the perspective of increasing employment, it is undoubtedly interesting that as many as 8.4 per cent of Danes aged 15–64 hold a second job. However, from these data it is impossible to say if they work more than others, or if they have two jobs with short hours.

3.1 Working Hours

In Figure 2, we see the development over time of hours worked in the four countries. The average working time in Finland has come down from its peak in 1997, but is still far over the others. Danes worked more in 1998–2000 than before or after, while Swedes have reduced their hours in 2002–2005. Norwegians are clearly below the others with mere 34.9 hours per week – even though there was a slight increase in 2005.

When comparing hours worked and the general employment rate, we see interesting correlations. Firstly, Finland's hours worked have come down as the employment rate has increased. In Sweden, the two figures have been positively correlated, so that both the rise in employment rate in 2001 and the decline thereafter have been boosted by simultaneous changes in average working hours. Norway's recent decline in employment rate has also been somewhat strengthened by a decrease in working hours. In Denmark, the two figures seem to be negatively correlated throughout the period – except for the rise in employment rate in 1999.

Thus, even though one might expect this, the development over time does not show that hours worked on average and the general employment rate would be negatively correlated. On the contrary, there are many examples where both have increased at the same time. Even though differ-

ences in employment rates seem to derive largely from the share of part-time employment, it is possible to increase the general employment rate without increasing the share of part-time work.

In Figure 3, we can see the development of the full-time adjusted employment rate. Norway had the highest adjusted rate as late as 1998, but for now its rate is the lowest. As stated above, the changes in Sweden 2000–2005 become even more prominent with the adjustment.

In the appendix, we can see the adjusted rate separately for men and women. Some interesting findings arise. Firstly, the adjusted rate for men is partly even higher than the general employment rate. In 2005, the Finnish and Swedish men work about 40 hours per week, while Danes work a little less and Norwegian men 38.3 hours. This leaves the adjusted rate for Finnish men lowest of all.

The differences are larger when it comes to women's working time. Finnish women work considerably more than women in the three other countries, which is a clear factor raising Finland's adjusted rate. While the adjusted rate has increased considerably in Finland and Sweden and remained quite high in Denmark, the Norwegian figure is low.

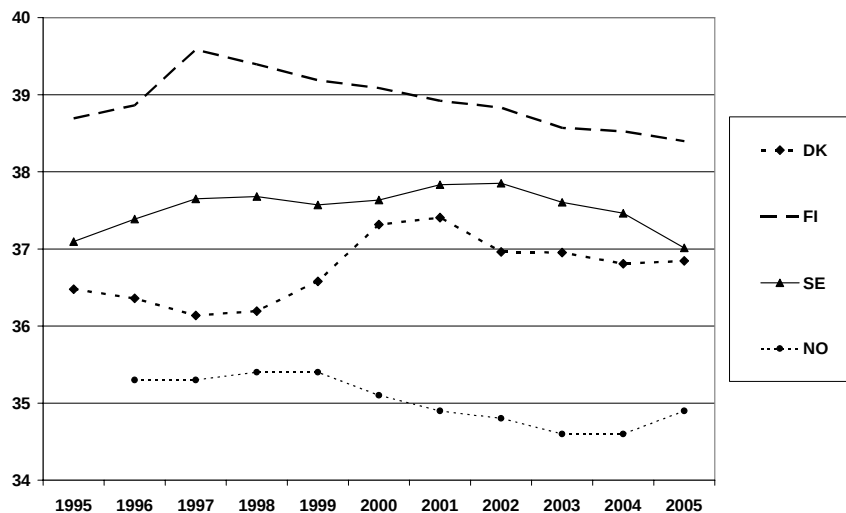


Figure 2 Actual hours worked in all jobs on average per week (excluding holidays and absence). All employed persons. Source: Eurostat, LFS, second quarter for others – SSB Statbank (LFS) for Norway.⁹

⁹ There were errors in Eurostat data when concerning Norway. On the other hand, SSB's data for Norway included even extra jobs, while Eurostat has separate statistics for main job and second job. The Eurostat figures for the three other countries have been made comparable with Norway by adding hours in second job (using both data on average hours worked on second job and the number of second job holders).

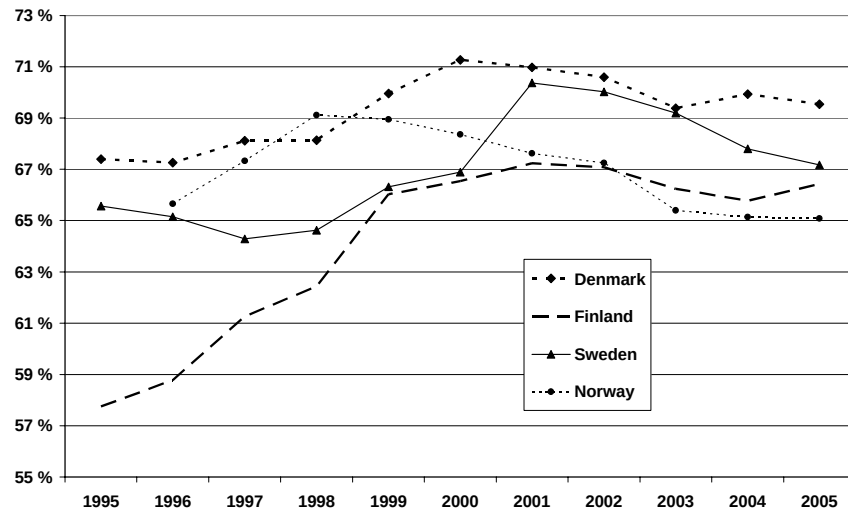


Figure 3 Employment rate of the 15–64-year-old population adjusted to full-time (40 hrs/week) employment by hours worked per week per employed person (of any age). Sources: Eurostat and SSB Norway, LFS.

In Figures 4 and 5, we have calculated the way employment is being shared within the population in a rather interesting way.¹⁰ In Figure 4, we see the total number of hours worked in the country divided by its population. Obviously, the differences here reflect the general employment rate (and even more the adjusted one), but this presentation takes into account two important things not recognized by employment rate. Firstly, the share of working-age population of the whole population can change. Secondly, even people not in “working age” are employed and contribute to the total number of hours.

Compared to the size of their population, Danes work most hours and Norwegians least, with Finns and Swedes in between. Norway gets by with two hours less than Denmark and one hour less than Finland and Sweden per citizen.

In Figure 5, we see the relation of hours worked per employed person and hours worked per person. This calculation tells us about the distribution of work within the society. Essentially, the number tells, *how many citizen’s share of hours worked are being worked by one employed person*. If the ratio was 2.0, we could say that one employed person “supports” him/herself and one non-employed person.

Finns let the smallest minority do their work for them. Thereafter come the Swedes, the Norwegians, and finally, the Danes. Surprisingly, even though employed people work least in Norway, the distribution of work there is not the most even in these four countries. This is obviously due to the fact that less work is being done per person in Norway than elsewhere.

¹⁰ I thank Professor Bengt Furåker at the Gothenburg University for this idea.

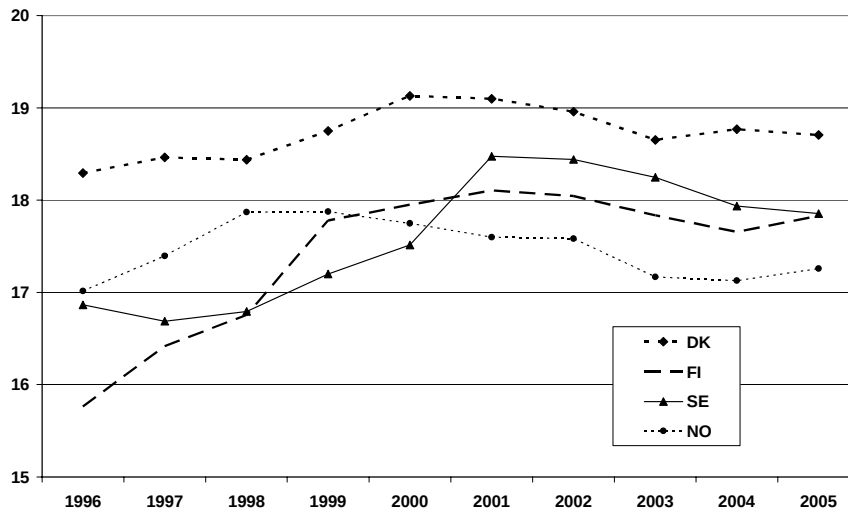


Figure 4 Hours worked in four countries per person. (Total number of hours worked by the employed population, excluding holidays and absence, divided by the total population). Source: Eurostat (LFS and population statistics), SSB Norway (LFS for hours worked, population statistics).

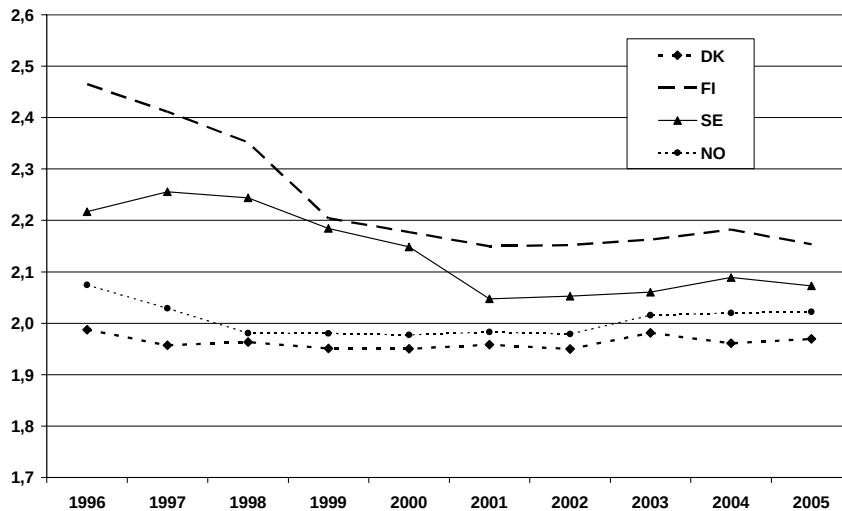


Figure 5 "Employment distribution ratio in four countries". Relation of hours worked per employed person / hours worked per person.

The severe unemployment and poor employment rate of the 1990's can be seen especially for Finland, but also for Sweden. In 1996, one employed Finn worked for 2.5 citizens. This figure has been stable 2.2 from about 1999. In the Swedish case, distribution of work became essentially more even with the boost of employment rate in 2001. After that, both Sweden and Finland have joined the others in the sense that this number is quite stable from one year to another.

Still, relatively large differences prevail between the countries. The distribution of work remains more uneven in Finland and to some extent in Sweden than in Norway or Denmark.

The amount of hours worked per citizen has thus far been closely correlated with the general employment rate of the working age population. In the future, demographic changes will necessitate a rise of employment rate in order to keep this figure from decreasing. At the same time, it will be challenging to keep the “employment distribution ratio” calculated in Figure 5 from rising. Both of these aims require including new sub-groups of population into gainful employment.

3.2 Part-time Employment

As mentioned earlier, there are large differences between the countries when it comes to part-time employment. In all countries, the young have the largest share of part-time (Figure 6). Finns work least part-time in all age groups.

From an employment rate perspective, three things in Figure 6 are particularly interesting – although for different reasons.

Obviously, part-time work done by prime-age (here 25–49) people is most interesting. They should have the most possibilities to move on to full-time employment. As we can see, this is most common in Sweden and Norway.

Secondly, part-time work by the ageing is interesting. However, one cannot know for sure when part-time work is an alternative to leaving the workforce, and when it is just cutting back working time.¹¹

Whatever the contradictions in this matter, one thing seems quite clear: there is an employment potential among those who work part-time involuntarily. That is, they would want to have a full-time job.¹² This is by far most common in Sweden, where 4.3 per cent of the whole population aged 15–64 are involuntary part-time workers. As we see in Figure 6, involuntary part-time is most common among young people in all countries, but both the absolute share and the relation to other age groups are on their own level in Sweden. Almost 20 per cent of total employment in age group 15–24 in Sweden is involuntary part-time.

¹¹ In the LFS, those on part-time pension are classified as part-time employed.

¹² Of course, even this can be a problem. Some people may say that they want a full-time job in order to be eligible for partial unemployment benefits. However, it is not very credible that this would play a major role in a survey such as LFS.

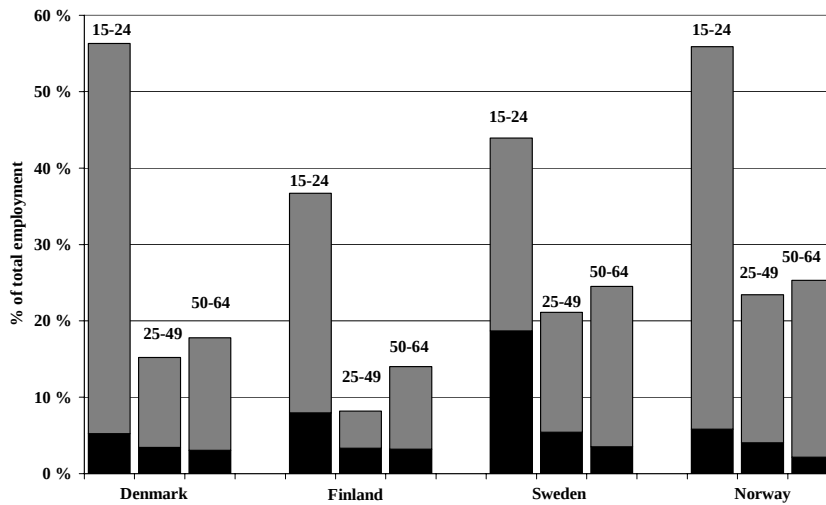


Figure 6 Part-time employment as a share of total employment by age in four Nordic countries. Share of involuntary part-time = black bar. Source: Eurostat, LFS. Second quarter of 2005.

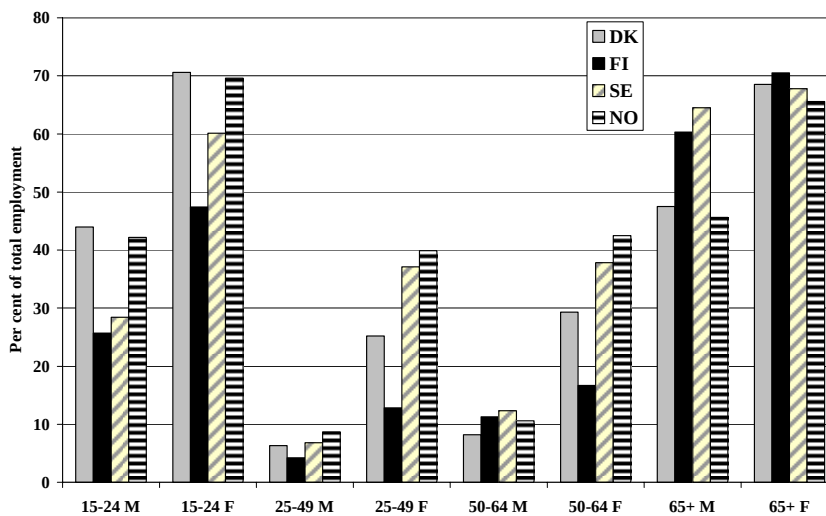


Figure 7 Part-time employment as a share of total employment by age and sex in four Nordic countries. Source: Eurostat, LFS.

In Figure 7, the age groups are broken down by gender. Part-time employment is clearly a thing for women regardless of age group and country. The gender differences seem to be most significant for 25–64-year-olds in other countries than Finland. The difference in the share of part-time employment between Finland and others is mainly due to women; their part-time work is not as established in Finland as in the other countries.

“Own health issues” are a significant reason for part-time employment only in Sweden (Table 3). The same applies to “personal / family issues”. This may suggest that the Swedish labour market is more flexible for people whose work ability has decreased and for people caring for

children or other family members. Most likely, these groups are more often completely outside employment in the other countries. Thus, there should be a considerable employment potential in the other countries in providing more flexible employment options for these kinds of situations in life.¹³

Raising the average number of hours worked seems to constitute a major employment potential among men only in Norway. In the three other countries, men already work about 40-hour-weeks on average, and it can be doubted if it is reasonable to try increasing this figure. On the contrary, one might say: by getting men not working at all to work part-time would reduce the average number of hours worked, but increase total employment.

On the other hand, women's working time constitutes a clear and large employment potential, especially in Norway but also in Sweden and Denmark. Comparing to the highest figure in Finland, Norwegian women work on average almost five hours less per week. Most of this part-time work is done voluntarily, however.

Table 3 Key figures of part-time employment.

	Denmark	Finland	Sweden	Iceland	Norway	EEA18
Part-time employment as a share of total employment	21%	13%	24%	19%	28%	20%
Part-time employment as a share of population	16,1	9,1%	17,1%	16,3%	20,9%	13,0%
Reason for part-time (total 100%):						
-- involuntary	17%	29%	25%		13%	20%
-- voluntary	34%	27%	15%		49%	28%
-- own health issues	6%	2%	14%		3%	3%
-- personal / family issues	4%	8%	19%			27%
-- educ / training	39%	29%	11%		22%	10%
-- no reason given			4%		12%	3%
-- other reasons		5%	13%			9%
Involuntary part-time as a share of population	2,7	2,6%	4,3%		2,8%	2,5%
Voluntary and other part-time as a share of population	13,4	6,4%	12,8%		18,1%	10,4%

Source: Eurostat, Labour Force Survey (LFS). Reason for part-time missing for Iceland. Second quarter of 2005.

The quite uneven distribution of work in Finland also implies that there should be employment potential among those not working at all. This also applies to Sweden to some extent.

The situation of the young is not crystal clear, either. The only indisputable finding is that Sweden has a large employment potential among young involuntary part-time workers. Otherwise, we could on one hand say that Finland and Sweden have a large employment reserve in the youngest age group and full-time students. On the other hand, the popu-

¹³ Partly – and especially concerning Norway – this result may depend on cultural factors defining the way people answer the survey. For instance, it may well be that Norwegians just answer that they have chosen to work part-time voluntarily, whatever the reason, whereas Swedes feel a need to justify this choice. Still, the fact remains that when comparing to Finland and Denmark, part-time work because of health or family reasons is much more common in Sweden.

larity of working while studying may postpone graduation and entering the labour market on a full-time basis.

However, turning to Figures 24 and 25 in the Appendix, there seem to be no large differences in the share of “early school leavers” – only that there are less of them in Norway. Working while studying is very common in both Denmark and Norway. Interestingly, Denmark has the lowest education attainment level of 20–24-year-olds and Norway the highest. Obviously, these differences must have a cultural explanation or one that relates to the schooling system, while the employment situation of the young is so similar in these two countries.

3.3 Part-time Employment – Blessing or Curse?

Hours worked on average and part-time employment can be seen from two perspectives, which can both be valid in the same country at the same time.

Obviously, low amount of hours worked and/or high share of part-time employment decrease total employment. This can be seen as an employment potential, so that employment can be increased by working more or working full-time.

However, smaller number of hours worked can also indicate that working life is more inclusive. For many students, ageing people or partly disabled people the alternatives may well be working only a little or not working at all. If part-time employment is not an option, they remain inactive.

The situation in Finland, with a high number of hours worked on average, low share of part-time and a generally uneven distribution of work among the population indicates that there should be employment potential among those who for some reason cannot work full-time. Promoting part-time employment might thus be an option for Finland. For instance, exit from the labour market could more often be gradual and slow. Obviously, promoting part-time work may (also) result in that full-time workers cut back on their hours.

At the same time, it seems clear that other countries – especially Norway – have real employment potential in promoting full-time jobs for those already working part-time. However, if people get by well with their salary from part-time work and value free-time, it may be difficult to motivate them to work more.

Still, it seems obvious that Sweden and Norway have a huge employment potential in part-time employees, especially women aged 25–64. Part-time work is essentially more common (around 40 per cent of all employment) among them than among their male countrymen or women in Denmark, let alone Finland.

Obviously, when talking about the employment situation of women in fertile age, many policy goals collide. These include equality between sexes, family policy, work-family mix and even demography as far as fertility is concerned. For instance, female inactivity is increased by policies granting benefits when caring for children at home, or reducing hours when having small children. Thus, it should be remembered that high employment rate is not the only goal for public policies.

All in all, the clearest employment potential among part-time workers is to be found among those who want to work full-time. This is most common in Sweden. Even though they are a minority among all part-time workers in all countries, this potential is still very large. For instance, there are 240 000 involuntary part-time workers in Sweden.

In all countries, we are talking about a significant amount of people, who would work full-time if given the opportunity. It is worth noting that this applies even to Finland, where part-time work as a whole is essentially rarer than elsewhere. The share of involuntary part-time of population is large even there – on the same level as in Denmark and Norway.

Thus, it is certainly worth looking at, why the opportunity to work full-time is not available for a considerable amount of people. At the same time, there is a considerable employment potential in trying to include more people currently not working at all into employment on part-time basis. This potential is most remarkable in Finland, but substantial even elsewhere.

4. Unemployment

Finland and Sweden are “unemployment countries” when compared to Denmark and Norway – this can be seen already in Tables 1 and 2. The difficult unemployment of Finland and Sweden is further stressed by the fact that passive job-seekers are *not* classified as unemployed according to the international definition, even if they are registered in unemployment offices. “Hidden unemployment” is thus a major issue. This can be seen in the fact that 1.1% of Finnish and 0.7% of Swedish population are inactive and not seeking employment because they “*think no work is available.*”

The international definition of unemployment includes job-seeking students, which – especially in the second quarter of the year – explains the huge difference to e.g. Swedish official unemployment figures. It does to an extent also explain the large amount of youth unemployment in Finland and Sweden.

However, the same definition applies to all countries, so the differences are real. At this point, it is worth noting that even students’ employment is a way to increase total employment, provided

- a) that they do not replace other workers. This seems to be the case in some areas of economy, though. For instance, while there are many ageing salespeople without a job, students occupy the cash registers at supermarkets. At this time, there is not much information of this phenomenon available.
- b) that their graduation is not significantly affected or postponed because of working while studying – at least not to the extent that this would outweigh the “employment gain” received through their work.

Finland is the land with the most severe unemployment problems. Chronic and long-term unemployment is much more common than elsewhere. Further, a part of the inactive population is in fact on unemployment-based pension.

People on unemployment pension in Finland are not classified as unemployed, even though they are in fact excluded from work because of unemployment. The same applies to Danish early retirement and transitional allowance schemes – they cover a large amount of people, who most probably would be unemployed without them. For instance, in Finland there were 47 600 people on unemployment pension on average

during the year 2005.¹⁴ These schemes partly explain the huge difference in the amount of retired (not counting those on disability pension) working age people (4.7% in Denmark, 3.6% in Finland, 2.1% in Sweden, and only 0.8% in Norway).

Obviously, even other early retirement pathways play a significant role here, while the pathways are partly interchangeable. People in fact excluded from work via unemployment may enter a disability scheme if other options are not available. On the other hand, if sickness and/or disability benefits are hard to obtain, people who are de facto disabled may remain unemployed or take up unemployment pension.

In Figure 8, we can see the share of unemployment of working-age population. This is probably more informative from an employment rate perspective than the traditional unemployment rate. For Sweden, the rate in Figure 8 is calculated according to the “old” LFS – the comparable share is substantially higher.

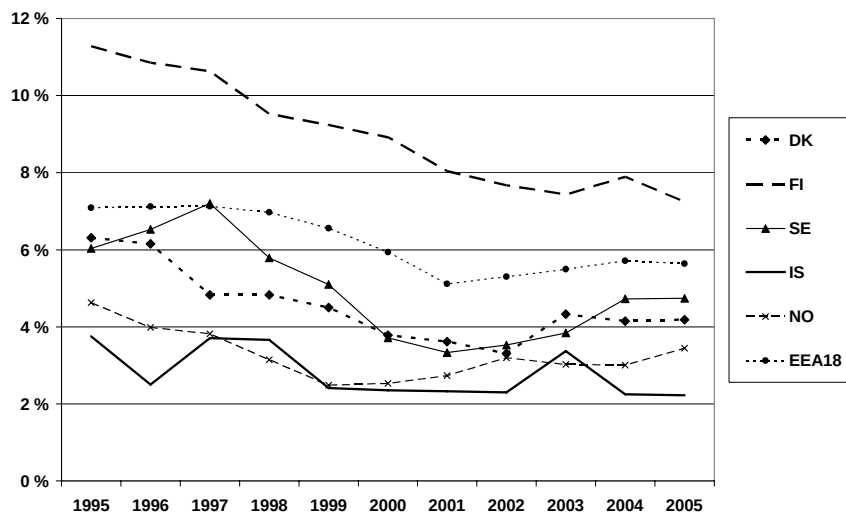


Figure 8 Unemployment as a share of population aged 15–64. (N.b. not same as unemployment rate). Source: Eurostat – Labour Force Survey. Data for the second quarter of each year, except for Sweden quarter 1 in 2005 – in reality, there is a slight rise in unemployment in Sweden in 2005.

Norway and Denmark are clearly below the European average in unemployment's share of population. In both countries, however, unemployment has been increasing in recent years.

Both Finland and Sweden (whose comparable figure for 2005 is 7.0 per cent) are above the European average. Their development is remarkably different. While Finnish unemployment has decreased rather steadily with some setback in 2004, Swedish unemployment has increased in 2001–2005. Especially in 2004 we see a large increase in the Swedish unemployment.

¹⁴ Source: Finnish Labour Review 2/2006.

4.1 Unemployment and Inactivity by Age and Sex

In this section, we look at the developments in unemployment and inactivity rates in the four countries in different age groups and by gender – the oldest age group is dealt with in Chapter 5, though. The reader can find the figures in the appendix, in Figures 18–23. The developments presented there are in our opinion valuable as such, even though we only comment the most prominent findings.

Here, inactivity rate is the share of inactive people of total population. Unemployment rate is counted as a share of labour force. When studying the Figures, one should note that the scales can be very different from one another.

Interestingly, for Danish males, the inactivity and unemployment rates are mirror images of each other (Figure 18). The combined rate (Figure 23) is a stable line. The same does not apply to women – nor do we see this phenomenon in other countries. From an employment rate perspective, this may mean that the Danish male employment rate is quite near its potential zenith, while the other countries still have considerable potential there.

The adjusted employment rate (Figure 15) for Danish males has been a bit higher though for some years ago, as the amount of hours worked has decreased somewhat. Still, their adjusted employment rate is nearly 80 per cent and about five percentage points higher than in any other of the three countries.

The gender difference in inactivity is clear in all countries, but as to its size there are large differences. The gender gap is largest in Denmark and smallest in Sweden. Obviously, one can interpret this in the way that there is employment potential especially among Danish and Norwegian inactive women.

When it comes to unemployment, there are no remarkable gender differences in Finland and Norway. In Denmark, women's unemployment is higher than men's, even though the difference is a lot smaller now than in the mid-1990s. The opposite applies for Sweden, where the difference between the sexes still is rather large. (Figure 18).

Over time, inactivity rates change most dramatically for the young and old – the rate for prime-age population is quite stable in all countries, when studied as a total and not by gender. (Figure 19). Gender differences for the young are remarkably small in other countries than Denmark (Figure 20).

All in all, youth unemployment is most sensitive to economic fluctuations. The development in Sweden is particularly interesting. Youth unemployment was first halved in 1997–2000 and then doubled again in 2001–2005. (Figure 19).

The differences between countries for 15–24-year-old people are huge – note the scales in Figure 20. This leads us to Figure 23, where the com-

bined share of inactivity and unemployment for the young is remarkably different between the countries. The share is below 40 per cent in Denmark, and about 65% in Sweden. Denmark is also the only country where the inactivity and unemployment rates of 15–24-year-olds do not clearly correlate with each other.

What are the explanations? As full-time students are counted as “inactive”, it is odd that the Danish rate is this low. The most prominent explanation derives from the fact that students are classified as employed when holding a part-time job and as unemployed when they are searching for one. Many students in Denmark work – this can be seen e.g. in Tables 1 and 2, where both part-time and temporary workers often report that they are in education or training.

Thus, in the three other countries, increased employment of the young derives both from unemployment and from inactivity (presumably studies). In Denmark, this relation is not so apparent. A strong cultural preference for combining studies with work seems like a plausible explanation for this. When times are bad economically, students in Denmark are more often listed as unemployed according to the international definition. In better times, they are classified as employed. In the three other countries, students seem to refrain from seeking work if they feel that none is available.

There might also be other cultural and institutional factors, such as the generosity and other conditions of study grants, explaining the differences between countries. In Finland and Sweden, it seems more popular to focus wholly on studying without employment on the side. From the point of view of increased employment, an interesting question is whether this is a voluntary choice or a fact of life due to (suitable / part-time) jobs not being available.

In Figures 21 and 23, we see the situation for prime-age (25–49) population. In 1995, Finland was the only exception with its very high share of inactive and unemployed people. In 1998, Sweden had joined Finland, albeit on a lower level. In 2005 the differences between countries were very small compared to earlier years.

In Finland, female unemployment has mostly been higher in this age group – however, in 2003 the male unemployment rate increased temporarily. In Sweden, female inactivity increased remarkably in 1998 and male inactivity in 2000.

The Swedish overall development in 2000–01 is also interesting. Inactivity rates rose at first in 2000 while unemployment decreased remarkably. Then, both rates came down very fast and employment improved with a peak.

Overall, it is interesting that the inactivity rates of prime-age population fluctuate this much, when compared between sexes. This indicates that even in this age group, there is considerable room for change.

4.2 Long-term and Chronic Unemployment

Obviously, long-term unemployment is even more interesting from an employment rate perspective than unemployment in general. While short-term unemployment rates tend to fluctuate quite straightforwardly along with economic trends, long-term or chronic unemployment is more persistent. After a recession, long-term unemployment tends to come down very slowly even if the economic upturn is fast.

In Figure 9, we see the “traditional” method of presenting long-term unemployment (as a share of total unemployment). In Figure 10, the same data is seen from “an employment rate perspective”, that is as a share of population.

In both presentations, long-term unemployment had already peaked in all countries except Sweden in 1995. In Sweden, the population share grew until 1997 and the share of total unemployment until 1998. Thereafter, the Swedish long-term unemployment came down rapidly. In 2005, its share of total unemployment was lowest in the four countries.

In Figure 10, we can see the drastic fall of long-term unemployment in Finland, even though its share of total unemployment has remained high. Still, long-term unemployment is much more common in Finland than in other countries.

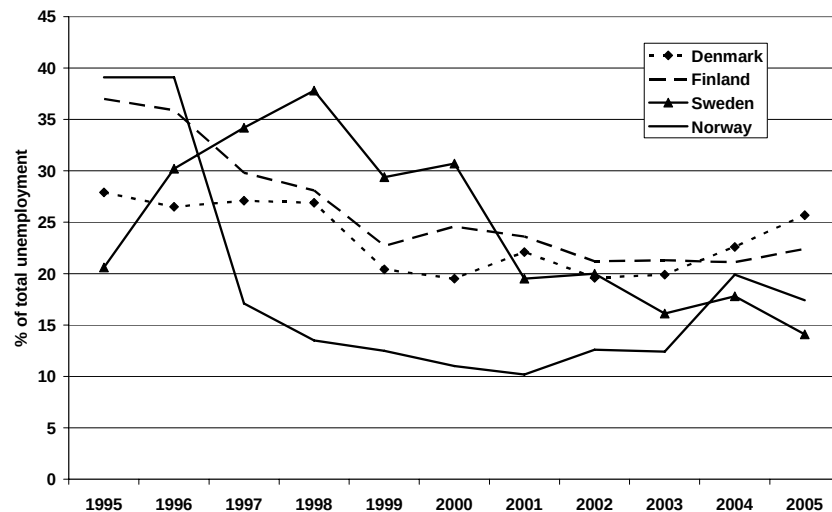


Figure 9 The share of long-term unemployment (continuously over 12 months) of total unemployment in four Nordic countries 1995–2005. Source: Eurostat – Labour Force Survey, second quarter of the year – in 2005 first quarter for Sweden.

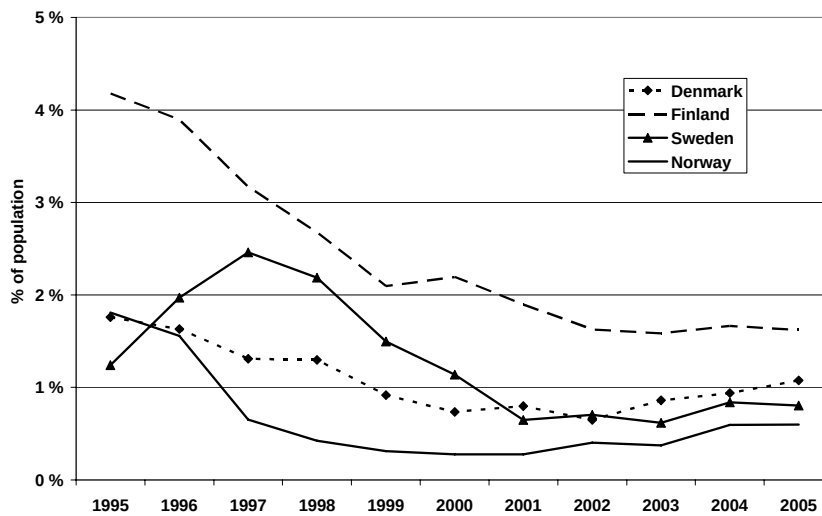


Figure 10 Long-term unemployment as a share of total population aged 15–64. Source: Eurostat, LFS, second quarter of the year – in 2005 first quarter for Sweden.

In the other countries, we see that the population share of long-term unemployment has increased recently. In Norway, it began to rise in 1999 – it has remained relatively low, though, compared to the other countries. The decrease of long-term unemployment stopped in Denmark in 2000, in Sweden in 2001 and in Finland 2002. In recent years the share has increased in all other countries except Finland. Note that the comparable figure (according to the “new” LFS) for Sweden is 1.0 per cent in the second quarter of 2005.

Despite the recent changes, Finland has the largest employment potential among long-term unemployed. Interestingly, long-term unemployment does not seem to be a very significant factor from an employment rate perspective. Even if it were to disappear completely, and solely into employment, this would only raise the employment rate by 0.6 (Norway) – 1.6 (Finland) percentage points. This is, however, partly a statistical illusion.

Structural unemployment is not fully revealed in conventional statistics. In the Nordic countries continuous long-term unemployment is commonly prevented or interrupted by extensive activation programmes. Thus, the number of those who at a given moment are in fact excluded from the open labour market is much higher than the number of those who are long-term unemployed according to the statistical definition.

Even repetitive participation in active labour market policy measures with unemployment periods in between without genuine employment on the open market is quite common (although the incidence of this has not explicitly been investigated). In Finland as many as 80% of all participants of activation measures have participated at least once before, and about a half of all unemployed have not had any open market employment during the past two years (Aho 2004). While the activation rates in

Denmark and Sweden are much higher than in Finland, this indicates that “repetitive activation careers” and chronic unemployment not revealed by statistics may be widespread in these countries, too.

A recent study reveals for Finland that chronic and structural unemployment are not essentially a “long shadow” of the recession of the early 1990, but there is a continuous and steady new inflow to these groups. The ageing are overrepresented in this category, but an important share of chronically unemployed belong to other age groups. To give an example, 45 per cent of all Finnish unemployed at the end of the year 2000 were chronically unemployed according to a definition that takes into account the work history of the previous four years. (Aho 2004) At the same time, the register-based official figures indicated a 28 per cent share of long-term unemployment.¹⁵

There seem to be two main paths to chronic unemployment (according to Aho 2004):

1. Unsuccessful transition from education to employment, and consequently, inability to establish a steady employment career in the first place. Often connected with low success in educational system and/or lacking secondary education.
2. After a sometimes long employment career in declining occupations/trades, failure to find new employment when made redundant. Often connected with narrow qualifications, low educational level and/or ageing.

In Aho’s study, these two categories of new flow to chronic unemployment were roughly equally common. Comparing chronic unemployment in the Nordic countries would be most interesting, but such calculations require the use of register data. In any case, this is an interesting topic for future research.

The qualification structure of the labour demand has changed quite rapidly along with the development of the so-called information society and increasing globalisation, leading to rapid restructuring of the economy and changes in the international division of labour. Here, the relatively high labour costs (including indirect employer costs and taxation) in the Nordic countries are also a problem, making certain types of production and service provision unprofitable. The demand of labour in the Nordic countries is changing much more rapidly than the supply can change. As a consequence, the qualifications of an increasing share of the work force are becoming obsolete and the demand of low qualification and low productivity jobs is structurally low and relatively decreasing. Jobs that can be done by “anybody” (“every-man-jobs”) are disappearing. For Finland this is clearly shown by Blom et al (2001) and Uusitalo

¹⁵ Source: Ministry of Labour, www.mol.fi.

(2001); in other Nordic countries the development has undoubtedly been rather similar.

So-called “incentive traps” are created if social security systems offer income levels and entitlement conditions that are “too generous” in relation to – and not well synchronized with – the wages of available work opportunities, especially for those with lowest qualifications or competence. The evaluations of the incidence of incentive traps vary a lot. In Finland, the evaluated number of households considered to be in incentive trap varies from about 10.000 to almost 100.000 depending on data and criteria. The incentive trap is mainly a problem of low-income households, the young, the unemployed and the singles. (Kautto et al. 2002, 182–185).

However, many recent studies point out that not all people act according to incentives. For instance, it seems that the generosity of benefits is not a very significant factor behind the development of general unemployment rates. The negative incentive effects of unemployment security are far smaller than usually assumed. (See e.g. Virjo and Aho 2006, Benmarker et al. 2005).

To conclude, unemployment in general and long-term / chronic unemployment in particular constitutes a major employment potential in all of the countries, but especially Finland and Sweden. Mobilising this potential is not easy, though, as the recent development of long-term unemployment shows.

The mobilisation of such potential clashes with above all three challenges. Firstly, the qualifications of the unemployed often need to be improved or updated.

Secondly, we must deal with the discrimination of job seekers because of age, ethnicity, and/or the fact that they are unemployed. Prolonged unemployment seems to be somewhat self-explanatory, which has to do with several factors. In part, the cream of the crop stays employed or becomes re-employed quickly, which means that there is a selection process. Prolonged unemployment may also deteriorate the person’s qualifications and/or work ability and self confidence. Among the most important issues here are the attitudes of the employers. In recruitment, unemployment is often a stigma. Even if there was “nothing wrong” with the person, the reasoning is that there must be something wrong, as the person has not been able to get a job earlier. Obviously, being e.g. both old and long-term unemployed decreases the probability of re-employment drastically.

Thirdly, we have the issue of work ability. On one hand, a large share of the chronically unemployed needs some kind of rehabilitative measures in order to return to employment. On the other hand, a significant share of them can not be regarded as genuine potential workforce, as they are not fit to work. In a recent study, less than half of long-term unem-

ployed in Finland had an “excellent or good” work ability, while the same figure for employed people was 91 per cent (Holm et al. 2006).

From an employment rate perspective, it should still be pointed out that the work ability of a clear majority of the unemployed is as good as that of the employed (ibid.). Even though we must acknowledge the problem, it should not be exaggerated. An interesting finding is that those who had been re-employed did not differ at all from employed people in general, regardless of the length of their unemployment. Of course, good work ability probably increases the chances of re-employment even after a long unemployment period. Still, unemployment may well affect self-reported health, especially psychological, but finding a job is a sufficient “medicine” for this “disease”. (See Pensola et al. 2006).

4.3 Active Labour Market Policy

Unemployment is the sector of labour reserve that has most intensively been the target of public policies. The investments in this problem differ substantially between the four countries both quantitatively and qualitatively.

4.4 General Considerations

Traditionally, the state is seen as having an extensive role in getting the largest possible share of the population into work or other activities in the Nordic countries. Moreover, the state has an intensive role in that many of its policies contribute to this goal, which often involves intervening in the lives and autonomy of citizens. (Kvist 2001). In other words, work is a primary concept in the Nordic welfare state. High employment rates are needed to maintain the welfare state, and thus employment can be regarded as both an aim and a means in the Nordic system. (Midtsundstad et al. 2003).

During the 1990s, an “activation wave” swept across the Nordic block. First in Denmark and Norway, and then in Finland and Sweden, the governments thought it better to enforce obligations to work and to take up activation rather than to lower benefits and wages. Improving the qualifications of individuals was seen as a key way of strengthening the potential of society. (Kvist 2001). Hence the name “qualification strategy”.

As a part of the “activation wave”, individual action plans have been introduced in Denmark and in Finland. The idea is to underline both the rights and the obligations of the individual. Sweden has introduced an activation guarantee, which means that the long-term unemployed are activated on a full-time basis until they find work or enter ordinary education. (See Kvist 2001).

The Nordic governments are now partly moving away from the “qualification strategy”. The policy makers have become aware that providing qualifications cannot help all unemployed and marginalised people to get an ordinary job. This has led to social emphasis, such as the “encompassing labour market” in Norway and Denmark. The new thinking also includes wage subsidies for those with reduced work capacities. However, such developments have been slow, and there is a possibility that such policies can weaken the link between vulnerable groups and the ordinary labour market. (Kvist 2001). Thus, the “activation wave” still prevails, and many believe that stressing it further can do much (e.g. Bengtsson 2002).

All four countries are constantly renewing their approach to the service and activation processes of the unemployed. Those interested in a comprehensive comparison of such issues are advised to turn to a new report by Håkan Johansson (2006).

During the first half of the 1990s, activation measures in Finland, Sweden, and Denmark were often used to qualify and re-qualify for employment benefits. Until the early 1990s, even a kind of general work guarantee existed in Finland – all long-term unemployed had the right to temporary employment with contract wages. A remarkable policy shift occurred in Finland and Denmark when this possibility was abolished or at least diminished in the mid-1990s. In Finland, the role of active measures in qualifying and re-qualifying for unemployment insurance benefits decreased dramatically in the late 1990's. Even in Sweden, changes in benefits have resulted in a firmer link between welfare and work. (Aho and Virjo 2003, Kvist 2001, Virjo and Aho 2006).

The individual level net impact of participation on later employment probability on the open labour market is very modest and for most measures about zero in Finland, and the poor impact has been shown in other countries as well (cf. Aho and Kunttu 2001, Aho et al. 2001, Aho 2001, Forslund and Holmlund 2003, Calmfors et al. 2002). This is to a large extent due to “wrong kind of” participants: aside from those who actually benefit from the programmes, participants include both people who would have gotten a job anyway (and whose re-employment may even have been postponed by participation) and people whose employability is so low that they won't get a job even after having participated. (See Aho 2001).

However, even if the effectiveness is low on average, the programmes work for some people. Furthermore, there are other goals than direct employment on the open labour market. The ALPMs can in many cases be regarded as social policy as they prevent poverty and exclusion. A significant goal from our perspective is to maintain people's work ability for the future – when there will be a shortage of labour. There is evidence that the programmes actually help in achieving this goal (Holm et al. 2006).

4.5 Some Comparisons

Labour Force Surveys are not the best data source for comparing active labour market policies between the countries. Therefore, data has been extracted from other sources, which are not always fully comparable. In Table 2, we have included a share of population taking part in active labour market policy measures (ALPM). However, it has not been possible to distinguish this group from the other groups in the table. People in some programmes, such as subsidised employment, are classified as employed in most of the countries. In other programmes, people may be classified as students, inactive, or unemployed. The rules for this are not at all straightforward, and the diversity of programmes is huge.

Anyhow, we can easily constitute that only Norway differs remarkably from the other three countries when it comes to ALPM participants' share of population. Still, 1.1 per cent of Norwegians take part in such measures. In other countries, the share is as large as 2.5 (Finland) – 3.3 (Denmark) per cent of the population.

From an employment rate potential perspective, most ALPM participants can be equated with unemployed people. This is true even though some programmes are exclusively targeted at people with low work ability – we know that many of those unemployed are not 100 per cent fit for work either. From this perspective, ALPM participants constitute a great employment rate potential – especially when we consider that most measures aim at helping the person find employment on the open labour market.

There are considerable differences in the emphasis on activation between the countries, however. Even though the population share of participants is only marginally higher in Denmark than in Sweden, the difference becomes clear when comparing to the level of unemployment. The number of participants per unemployed is two times as high in Denmark as in Sweden, who still has a higher figure than Finland or Norway. When compared this way, Norway does not have an exceptionally low emphasis on activation – the low population share comes with the low unemployment.

In Figure 11, we see the expenditure on labour market policy as a share of GDP in the four countries. Passive labour market policy entails all forms of income support to people on unemployment benefits – and unemployment-based pensions.¹⁶ Overall, only Norway has increased its expenditure in the recent years – even so, they spend by far least. The increase is due to rise in unemployment, not more emphasis on activation.

¹⁶ Note that in many other calculations, unemployment-based pensions are not counted as passive labour market policy.

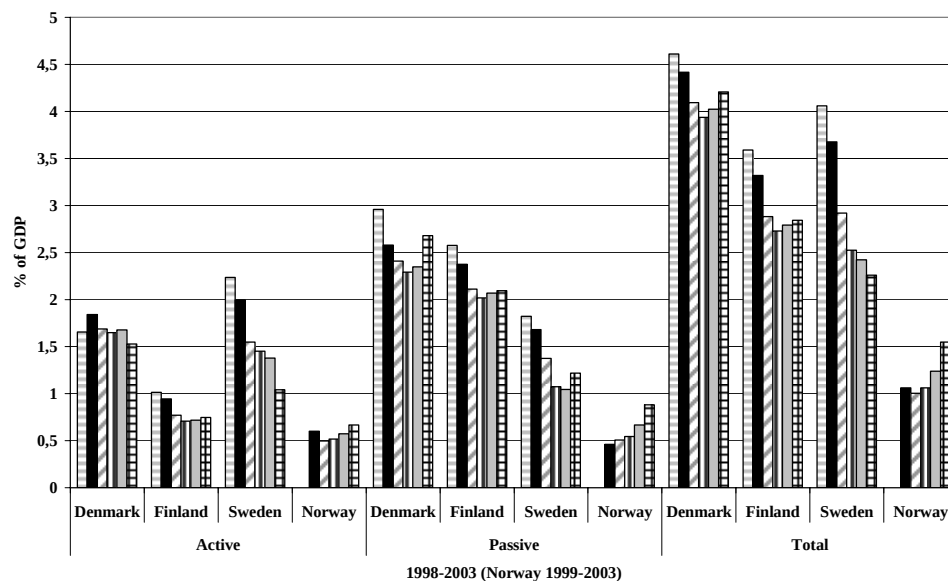


Figure 11 Expenditure (as% of GDP) on labour market policy – both active and passive.
Source: Eurostat.

This comparison reflects on the whole four things. Firstly, the number of unemployed, people on unemployment-based pensions and participants in ALPMs. Secondly, the emphasis each country has in its policy – Denmark and Sweden spend a lot on active measures, while Finland's activation rate is lower. Thirdly, the expenditure reflects the level of benefits. For instance, Swedish participants receive a more generous average benefit. In Denmark, most of the unemployed and people on unemployment-based pensions are on generous earnings-related benefits, which is no longer the case in Finland. Fourthly, the expenditure on active programmes depends on the cost per participant, which also may vary considerably.

From an employment rate perspective, both the number of participants and the emphasis on activation are interesting. In Table 4, we see the share of expenditure on active policies. Traditionally, Denmark is regarded as the most active country in this group. Indeed, when taking into account the level of unemployment, the Danes spend a lot on active policies.

Table 4 The share of expenditure on active labour market policy of the whole labour market policy expenditure.

	1998	1999	2000	2001	2002	2003
Denmark	36%	42%	41%	42%	42%	36%
Finland	28%	28%	27%	26%	26%	26%
Sweden	55%	54%	53%	58%	57%	46%
Norway	N/A	56%	50%	49%	46%	43%

Source: Eurostat.

However, their emphasis on activation is less clear when even unemployment-based pensions are calculated as a part of the labour market policy. When calculated this way, Sweden spends a larger share on active policies, and only Finland is clearly different from the others with its focus on passive expenditure.

Obviously, no level or composition of expenditure guarantee results. Generous unemployment benefits may well help create a flexible labour market, even though they are regarded as passive policies. The recent development in many countries suggests that the least employable persons could benefit from tailored help, whose cost per person is high.

5. The Ageing

The situation of the ageing has been in the focus of attention in the employment rate discussion in the Nordic countries. This is understandable, as other major labour reserves are difficult to find. Even though this report points to several other potential such reserves, it cannot be denied that the ageing are extremely important. Further, because of changing demography, they are becoming more important all the time.

Recently, we published a review of the literature concerning the ageing on the labour market in the Nordic countries (Virjo 2004). Here, we summarise its main findings from an employment rate perspective¹⁷ and complement them with some new comparisons especially concerning very late exit.

5.1 Early Exit

Denmark, Norway, Finland and Sweden all have similar problems regarding demography and the employment rates of the ageing. At the same time, the approaches applied have been somewhat different. In Finland and Norway, there have been many initiatives to promote the working conditions and reduce sickness absence and disability pensions. In Finland and Denmark, the rules of the schemes have been changed very much – Norway has correspondingly chosen to concentrate more on the attitudes of employers and employees.

A special problem related to the ageing workforce is common to all of the Nordic countries, namely that the share of ageing workers is much greater in the public sector than in the private sector. In any case, it seems that all countries will have special problems in recruiting workers for the different functions of the welfare state. To put it strongly, one can say that as the ageing population needs more health care and similar services, many workers in those particular occupations leave the labour force.

Early exit is institutionalised in all countries in the sense that only a small minority of people work until the statutory pension age. However, the extent of early exit and the pathways used vary considerably. In comparison, Norway and Sweden are late-exit countries, where only a few generous pathways out of the labour force are offered. This has resulted in a record-high utilisation of sickness benefits and disability pensions.

¹⁷ The reference is not repeated every time in this Chapter. When no reference is given, the reader can assume that more information can be found in Virjo 2004.

Denmark and Finland are at the other end of the scale. In Denmark, there is a widely used early retirement benefit. There is also an unemployment-related pathway, as the early retirement benefit can be preceded by long unemployment spells on full insurance benefit. In Finland, the unemployment pathway became the major way of exit in the 1990s.

In Figures 22 and 23 in the Appendix, we see the unemployment and inactivity situation of 50–64-year-olds. The employment potential in this age group seems remarkable in all four countries. It is especially large in Finland and Sweden, though. In Finland, the situation has improved considerably from 1998 onwards. This is because new entrants to the age group have managed to hold on to their jobs – not because people previously excluded from employment would have managed to get re-employed (Virjo and Aho 2002). In Sweden and Norway, the combined share of unemployment and inactivity in this age group has increased in recent years, despite policy intentions to the contrary.

There are considerable differences in the use of part-time pensions between the countries. However, one thing is common to the countries. In some way, a plan and/or a demand for more flexible alternatives regarding pension age and the possibilities to work fewer hours before quitting entirely is embedded in the national initiatives and/or government programmes. Clearly, there is demand for more free time in exchange for more years on the labour market in all of the Nordic countries.

It is often argued that flexible solutions in combining work and pension might be the key to reversing the trend of early exit (e.g. SOU 2002). When considering employment rates, the key question is whether most part-time pensions replace full-time employment or full-time pensions. Research results on this area are not at all uniform. Some argue that part-time pensions that compensate for the loss of income only enable healthy people to decrease the number of hours worked (Ageing and employment policies 2003, 60–61). Others say that part-time pensions increase the years in working life (Riv hindren ... 2002, 85). It may well be that both arguments are correct, because according to some estimates, part-time pension has increased the number of people in employment, but decreased the total amount of hours worked (Rantala and Romppanen 2004, 54).

Especially Finland should have potential in increasing part-time employment among the ageing. The employment rate of this age group is relatively low, as is the share of part-time employment (see Figure 6). Even in Denmark, part-time employment could probably be a means to increase employment in this age group.

Unemployment rates of the ageing vary considerably between the countries, partly because of the institutional differences. However, one thing is common: when an ageing person becomes unemployed, the unemployment period tends to last considerably longer than in other age groups.

For instance, at the end of the year 2000, 62 per cent of the 55+-year-old unemployed in Finland were chronically unemployed according to a definition that takes into account the work history of the previous four years. (Aho 2004).

Unemployment in old age also often leads to permanent exclusion / exit from the labour market. In some cases, this is a direct consequence of unemployment as an early exit pathway (it is intended to lead out of the labour force, thus it is long-term). In other cases, an arbitrary unemployment spell leads out of the labour force because of the ageing workers' low re-employment probability.

Active labour market policy measures have often not included the ageing in practise, even though changes have taken place recently. Institutional factors and the low job-search activity of the ageing contribute to the fact that the re-employment rate of the ageing unemployed is very low. Age discrimination is also widespread in all Nordic countries – especially in recruitment.

Regarding early exit in general and for all pathways, we want to point out a result that cannot be stressed enough: retirement / decision to leave working life is most often a one-time, irreversible decision. Even those who exit the labour market via unemployment have a very low re-employment probability. Once they have been unemployed for a longer period, they start to consider themselves as pensioners, and the return to work is even more improbable.

Only a small minority of the people who apply for disability pension but are rejected return to gainful employment. Most people either apply again successfully or utilise some other early exit pathway. (Weatherall 2002, Gould 1996, Gould and Nyman 1998, Gould 2001, Hytti 1998).

Even in cases where people receiving some form of early retirement benefit consider themselves totally healthy and fit to work, they usually do not have any plans of returning to employment (e.g. Nylén and Torgén 2002). At the same time, it can be pointed out that the decision to leave early becomes very firm with time even for those who still go on working. Thus, interventions that plan to change early exit attitudes should ideally take place quite early during the work career (Hytti 1998).

It also seems reasonable to state that with the workforce growing older, individual job planning is becoming increasingly important. Jobs should not be planned only with the 100 per cent healthy worker in mind.

Järnefelt (2003) has calculated that all Finnish cohorts until now have reached their peak employment rate before the age of 50. Thus, she makes the assumption that the lower the cohort's employment rate at 50, the lower it will be even in the future. In Figure 17, we see the employment rate of 45–49-year-old population. As we can see, the rate has decreased recently only in Norway, where it still is almost as high as in the three other countries. Thus, there should be good possibilities to affect the em-

ployment rate of the ageing in the future – the “starting level” before the critical years for early exit is high.

In Figure 12, we see the average exit age from the labour market as calculated by Eurostat. As we can see, the general levels correspond to the result of Sweden and Norway as late exit countries compared to Denmark and Finland.

In Denmark, the average exit age has increased especially for women. In Sweden and Norway, on the other hand, the age has decreased but still remains relatively high. The decrease is remarkable especially for Norwegian women, whose average exit age has come down by two years in 2001–2004.

In Finland, the average exit age has decreased, but this is most likely a statistical illusion. Namely, the average age of *withdrawal from employment* has risen in the recent years – the average unemployment spell before exit from the labour force is shorter than before. Statistics on actual age of withdrawal from gainful employment – taking into account unemployment preceding retirement – would be more interesting and informative, but are unfortunately not available.

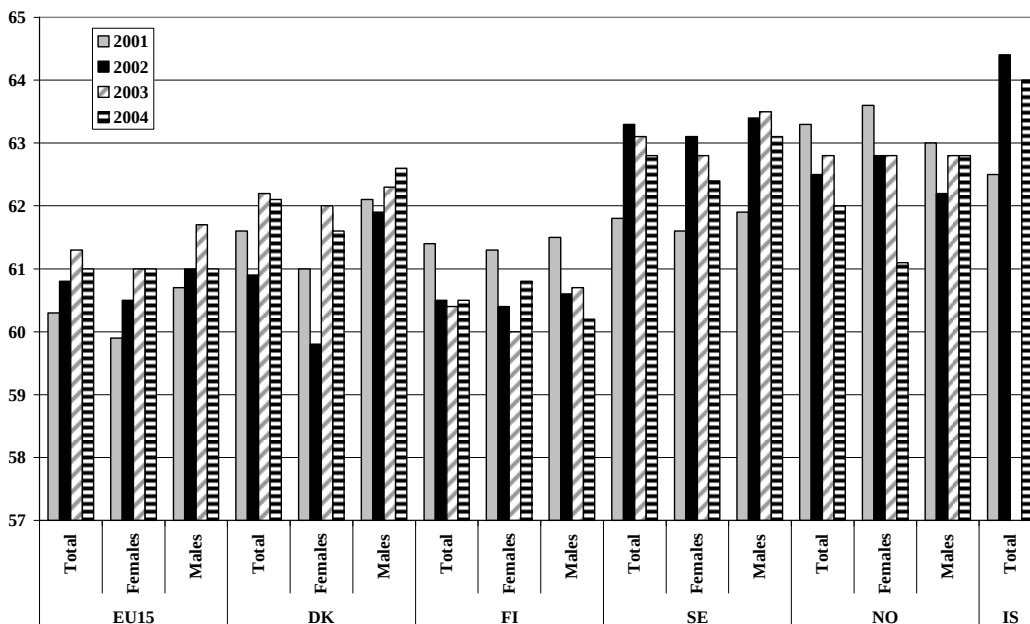


Figure 12 Average exit age from the labour market in some areas by sex 2001–2004. Estimate by Eurostat using data on labour force rates divided by age – source: Eurostat.

To conclude, early exit and chronic unemployment of the ageing constitute the most significant employment reserve in the Nordic countries. This is more prominent for Finland and Denmark, but the potential is substantial also in Sweden and even in Norway.

The ageing constitute the reserve that cannot be left non-utilised, as its importance is growing very fast. Institutional arrangements play a con-

siderable role, but in the end the decision leading to withdrawal from employment is taken by the individual employee (see a review of “push/pull – stay/stuck” theories in Virjo 2004) and/or employer.

The importance of this issue is well understood in all four countries. Still, combating early exit and unemployment of the ageing is far from easy. In short, policies must concentrate on

- working life and working conditions
- institutional arrangements – especially “carrots” encouraging a longer career
- preventing layoffs and increasing re-employment probability of the ageing
- intervening early during the unemployment spell
- combating age discrimination in all of its manifestations
- promoting individual work ability and individual job planning
- considering part-time arrangements and gradual retirement options

Moreover, even promoting very late exit is important.

Very Late Exit

There is not much information about those who go on working *really* late, that is, considerably beyond the statutory pension age. According to a recent study from Denmark, they seem to constitute a similar – but even more strongly selected – group as those who work until the statutory retirement age. The “stuck” factors seem to be less prominent within this group. That is, they are motivated by the work itself, not forced to stay because of financial difficulties or so. (Østergaard and Juhl 2004).

In this chapter, we present a small comparison of the employment situation of 65–74-year-olds in the four Nordic countries. In Figures 13 and 14, we see the employment rates in these age groups. The Norwegian employment rate for 65–69-year-olds is considerably higher than the others, which is to be expected, as the statutory pension age in Norway is 67. These differences are in any case very significant. If Finland had as high an employment rate in the age group 65–69 as Sweden, there would be about 12 000 more employed people in Finland. This would not even be a very large change – if the rate were to rise to the level of Norway, the rise in employment would be more than 35 000 people.

In short, the point of view of very late exit stresses that we should not only look at the employment rate of “working age” people, but even at employment as a whole. Work done by people not in “working age” is very significant for the economy, and potentially even more significant than today.

In the age group 70–74, we see remarkable differences between the countries but also over time. Finland remains the country with the lowest employment rate, but in this age group it is Sweden who has the best situation. Denmark and Norway fall in between. The large changes from one year to another stress the possibility of change in this sub-group of the population.

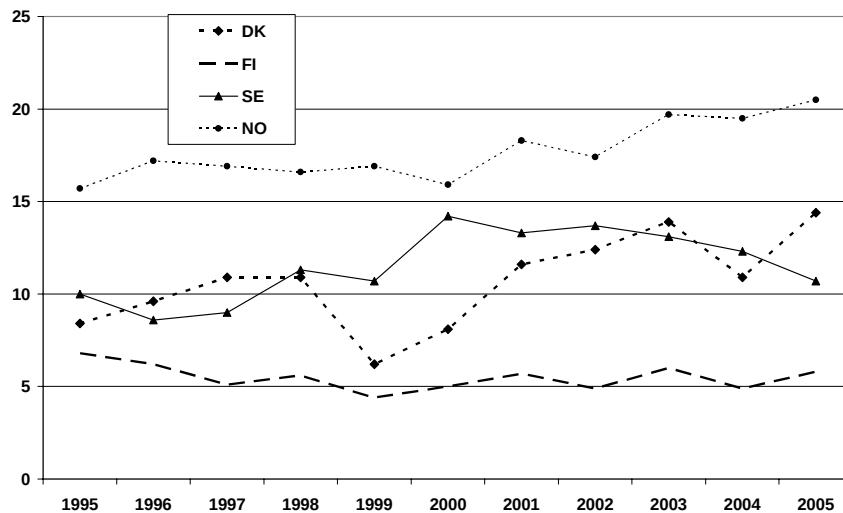


Figure 13 Employment rate of population aged 65–69 in four Nordic countries. Source: Eurostat, LFS.

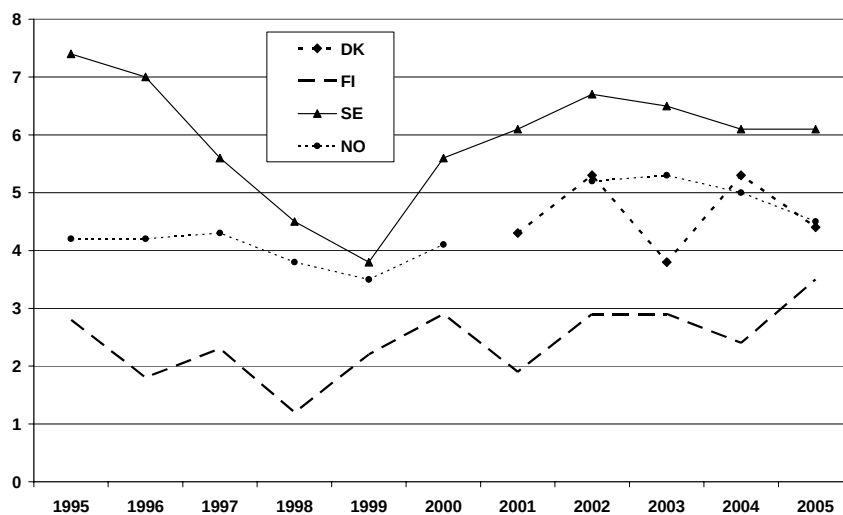


Figure 14 Employment rate of population aged 70–74 in four Nordic countries. Source: Eurostat, LFS.

In Table 5, we see a more detailed picture of the employment potential in the oldest age groups for Norway. Unfortunately, similar data is not available for the other countries. In any case, the numbers are very interesting.

Table 5 Employment potential in the 65–79-year-old Norwegian population according to NorLAG study.¹⁸

Age group	Employed	Want to be employed	Sum
65–69	22% (37 000)	11% (17 500)	33% (54 500)
70–74	5% (8 000)	7% (11 000)	12% (19 000)
75–79 ²	5% (7 500)	5% (7 500)	10% (15 000)
Sum 65–79	11% (52 500)	8% (36 000)	19% (88 500)

In Norway, 11% of the 65–79-year-old population are employed, and an additional 8% want to work. This additional 8% consists of 36 000 people. Even though not all of them are likely to be fit to work, and only one third want to work full-time, the potential is far from insignificant. In the NorLAG study, the employment potential (defined as the number of people not employed who want to be employed) in the age group 40–79 was calculated to be about 120 000 persons (17 percent of the not employed). According to health variables (SF-12), 90 000 of those wanting to work have comparable health conditions to those working.

There is no reason to assume that a similar “would want to be employed” -group would not exist in the other Nordic countries. Thus, there seems to be an even larger potential for very late exit than can be seen in the comparisons of actual employment rates. This potential is most prominent in Finland, but exists in the other three countries as well. Further, one can expect that those over 74 work in the other countries as well, even though data about this is not available.

In Finland, the employment rate of ageing (55+) workers has improved rapidly from the late 1990’s. This is most certainly partly a result of institutional arrangements, but also the national initiative may have played a role. However, we do not see any of this when looking at the very late exit figures. This is probably not expected, either, since the cohorts in question have yet to reach the 65 year mark.

A crucial question for Finland is, if the better situation of group 55+ will also begin to show in the share of people who go on working past the pension age. By studying the Norwegian example, we can see that there is a huge non-utilised employment potential here.

Lastly, it is worth pointing out again that the decisions concerning withdrawal from employment are in most cases done only once in life – they tend to be definite and irreversible. It is not the case that people who have ceased working at the age of 58 will start again when they are 67.

¹⁸ Table prepared by *Per Erik Solem*, Nova, based upon the Labour Force Survey Norway 2003 (www.ssb.no) for the employment of the age group 65–74, and the NorLAG study, 2002/2003 (www.nova.no/subnet/lag) for other information.

Thus, promoting very late exit is, from a policy standpoint, very much the same thing as preventing early exit.

To be more precise, promoting very late exit is a two-phased exercise. First, early exit must be prevented and only then can policies start to promote working beyond retirement age. In most cases, the latter cannot succeed without the former.

6. Absence and Disability

Sickness absence and disability are both potentially important from an employment rate perspective, as they decrease the total amount of work considerably. Obviously, some level of them is quite straightforwardly due to biological factors, and thus difficult or impossible to change.

However, comparisons in this field between the four countries are illuminating, as they have roughly the same demographical structure. Furthermore, they are all “Nordic welfare states”. Thus, it seems reasonable to assume that there are no major differences between the health situations of these peoples. More likely, if and when there are large differences between the countries, they depend on institutional and cultural factors.

Obviously, even absence because of other reasons than own illness or disability are interesting from an employment rate perspective. Such reasons include childbirth and care for children – regardless of if it is called parental leave, care leave, part-time care leave, etc. They also include care for elderly or disabled family members. However, comparable statistics on such absence are not available for all countries. Note that we have studied the levels of inactivity and part-time employment in different age groups – such as those likely to have small children. Thus, what is left beyond the scope of this report is *absence from employment* because of the above mentioned reasons. Even though we don’t think that there are likely to be huge differences between the countries in these respects, these possible sources of employment potential should be mentioned.

Analytically, we can distinguish at least the following phenomena relating to sickness and disability. Short-term absence, long-term absence, disability pensions of prime-age population, disability pensions as a pathway for early exit from the labour force, part-time sickness benefits and disability pensions, and being registered as unemployed but not being able to take up work because of illness / disability.

In this chapter, we summarise some findings pointing out the differences between the four countries in sickness absence and disability. Publicly available data is scarce. Thus, we rely mostly on previous research. Some relevant data has been available, though. Therefore, we start by making some comparisons about the status of the non-employed working age population.

6.1 The Status of the Non-Employed Population

Some information about the non-employed working age population can be found in Figures 27–30 in the Appendix. There, we have taken the most informative publicly available source of data for each country. This source varies between the countries – thus, the Figures are not fully comparable. When studying them, one should also remember that the size and share of the non-employed population varies over time and between countries. In the following, we comment the main findings of these Figures, especially from the viewpoint of disability.

In Denmark, illness and disability have increased their share of the non-employed population considerably. The largest change took place in 1999–2000. At the same time, the share of retirees has decreased correspondingly. The conclusion here is apparent: tightening of early retirement rules has led to an increase in the use of sickness and disability benefits.

The relative importance of unemployment has decreased substantially both in Denmark and Finland, while the share of inactivity because of family reasons / household work has remained stable.

In Finland, the share of disability of the non-employed population has been quite stable during the time period in Figure 28. It has even decreased somewhat, which is remarkable as the employment rate in Finland grew substantially from the mid-1990's to 2004. This means that the share of disability of the whole population has decreased remarkably.

At the same time, unemployment pension has become a major factor from the year 1996 onwards – this can be found in the “others” column. Furthermore, relatively many people in Finland are retired because of age even before the age of 65 – this is because a significant share of occupations has had a lower pension age.

In Norway, disability has increased very clearly during the period 1996–2005. At the same time, only the share of people working at home has decreased significantly.

For Sweden, we have data for a considerable longer time period. This can be seen especially in the share of “work at home” column, which dominated the inactive population in the 1970's. Unemployment – open and hidden – increased substantially in the early 1990's, then decreased significantly in 1998–2002, but has increased its share again in the recent years. The most striking feature in Figure 30 is, however, that disability has increased remarkably from the early 1990's onwards.

To conclude: the share of ill / disabled of the non-employed population has decreased only in Finland – and even more so when taking into account the increased employment rate in the country. In the other three countries, illness and disability have more or less been on the increase during the recent years. At least in Denmark this has to do with tighter rules for early retirement. On the other hand, even the Finnish unem-

ployment pension pathway has been made more difficult to enter, but this has not led to increased disability.

6.2 Sickness Absence

A high level of sickness absence can point to both directions when it comes to the inclusiveness of working life. On one hand, a relatively high absence rate may indicate that even people with somewhat reduced work ability are included in employment. On the other hand, high and increased absence can also point to the contrary: people with small or moderate health problems find it more and more difficult to hang on to employment.

In Table 1, we see the sickness absence rates for the four countries in 2004 (as presented in *Sjukfrånvaron ... 2005*). Sweden has the highest figure (4.0% of the employed aged 20–64) along with Norway (3.8%). Finland (2.7%) is on a lower level, while Denmark has the lowest rate of all (1.5%).

When considering the role of sickness and disability from an employment rate perspective, we must remember that this rate tells about a small fraction of the whole phenomenon. It only includes sickness absence that lasted the whole survey week in Labour Force Survey. The figure including even shorter sickness periods is considerably higher – for Norway, it was 7.1% in 2004. Unfortunately, this figure is not available for all countries in a comparable way.

In a recent report, the sickness absence during the whole survey week in among others these four countries has been compared (*Sjukfrånvaron ... 2005*, 4). In Sweden, absence decreased remarkably from nearly 6% in 1990 to about 2.5% in 1997. Thereafter, it increased again until 2003 and was 4.0% in 2004.

In Norway, the level was rather stable until the late 1990's, when it increased about one percentage point from about 3 to about 4 per cent. For Finland, sickness absence has been relatively stably around 2.5 per cent with a slight increase in 2002–2004. The Danish level was slightly higher in the 1990's, but even then it never was over two per cent. In recent years, sickness absence in Denmark has been stable and very low compared to the others – around 1.5 per cent. (*Sjukfrånvaron ... 2005*, 4).

The higher sickness absence in Sweden and Norway prevails in all age groups with no remarkable differences in the relations between countries by age. (*Sjukfrånvaron ... 2005*, 7).

Gender differences are another story. In all of the four countries, women are more often absent from work than men. The gender gap in this respect has also been on the increase – especially in Sweden, where it is by far the largest. Swedish women are almost twice as much absent from work because of sickness than Swedish men – the quota for years 2000–

04 is about 1.8. Thereafter come Denmark with a bit over 1.5 and Norway a bit under. In Finland, absence in this comparison is most equal with a quota of 1.3, and Finland is also the only country where absence has become more equal over time. (Sjukfrånvaron ... 2005, 6).

However, when looking at registered absence days for employees aged 15–74, the gap between women and men has been on the increase in Finland in 2000–2005. While this figure for men has remained stable, a bit over three per cent, it has increased remarkably for women and was in 2005 almost five per cent. (Työllisyyskertomus 2005, 127). This gives us a quota almost as high as in Sweden.

In all four countries, the difference between men and women is larger than elsewhere in Europe. (Sjukfrånvaron ... 2005). An obvious explanation for this is the high employment rate of women. However, this does not explain the large differences between the Nordic countries. One explanation might be that especially older women are more often employed in Sweden and Norway. This could partly explain the differences, as the figures presented are not age standardised. However, even this does not come near to explaining the heavy increase in “absence inequality” in Sweden.

Many explanations have been offered for the inequality. The most obvious and most easily measurable is pregnancy-related absence, which only explains a small part of the difference between sexes. The gender segregated labour market in the Nordic countries is another explanation often offered, together with the assumption that working conditions are poorer in sectors dominated by women, such as health care. Moreover, it is more difficult for women to combine work and family – women also do a larger part of household work. (Orsaker till ... 2004.) All of the explanations are likely to be valid at least to some extent. However, they do not explain the difference between Sweden and the other countries, as similar conditions exist in all of the four countries.

Sickness absence in relation to full-time / part-time work brings out interesting differences between the countries. In Denmark and Finland, part-time employed are less absent than full-timers, although the difference is rather small. This applies also to Norwegian men. However, especially Swedish men are a different story – they are about 40 per cent more often absent when working part-time than those working full-time. Even Swedish and Norwegian women are more often absent when working part-time, but the difference is somewhat smaller. (Sjukfrånvaron ... 2005, 8).

Another relevant phenomenon is partial sick leave, which now exists in all of the four countries. In theory, this is an excellent way of trying to utilise the remaining work ability of people with somewhat deteriorated health. Furthermore, partial sick leave may help tie a person into employment, while very long sickness absence periods otherwise often lead to a definite exit from the labour force.

However, in Swedish studies, those on partial sick leave have been sicker than those on a regular sick leave. People on partial sick leave more seldom believe that they can return to full-time employment, and they are more often willing to retire completely. Thus, it is not self evident that partial sick leave is such a good solution after all. (Hogstedt et al. 2004).

Still, we should consider the nature of such benefit. It is likely that partial sick leave often is a "last resort" solution in a situation, where the other option is early retirement. Furthermore, partial sick leave requires bureaucratic arrangements – there is no point in making them for a short period. From this standpoint, it is not at all paradoxical that those on this benefit are on average sicker than those on regular sickness benefit – it has been established that they have a chronic health problem. Without further evidence, it seems that partial sick leave remains a possible option in utilising the whole employment potential of the population.

In Sweden, short absence periods have become rarer, while long absence has become essentially more common. One explanation might be that short absence, used relatively early in relation to the health problem, prevents long absence in the future. (Hogstedt et al. 2004). If this is true, then a culture, where very negative attitudes towards being absent prevail, is not the best from the standpoint of increased employment. Obviously, nor is a culture overtly encouraging sickness absence.

As it is not probable that Swedes and Norwegians are far sicker than Danes or Finns, explanations to the differences in absence rates must be found elsewhere. Most probably they can be found in different cultural and institutional factors. Sickness benefit levels are high in all of these four countries, though. Some differences exist – for instance, the rules of requiring certificate of illness are stricter in Finland than in Sweden.

One explanation is that sickness benefit forms a part of the disability-related early exit pathway out of the labour force. At least in Sweden, those who enter the disability pathway, often remain on sickness benefit for a very long time (Hogstedt et al. 2004). This is a credible explanation for a large share of the differences between Denmark and Finland on one hand and Sweden and Norway on the other. Firstly, it can be the case that disability pensions are granted after a shorter sickness benefit spell in the former two countries.

Secondly, Finland and Denmark have offered other widely used pathways for early exit than disability. It is likely that even disabled people and people with reduced work ability often use these pathways instead of disability pensions, which are more difficult to obtain. As the sickness periods preceding disability pensions often are very long, this can explain a large part of the differences.

Furthermore, not having unemployment-based early exit pathways can well explain the fact that unemployment and sickness absence are negatively correlated in Norway and Sweden. In times of low unemployment,

sickness absence has increased and vice versa. Conventionally, two theories have been used to explain this. Firstly, people may go to work even when they feel ill, if they are afraid of losing their job – leading to “sickness attendance”. This hypothesis is supported by the fact that people with temporary employment contracts are less often absent than others – although this is partly due to them being younger. Secondly, there might be a selection effect: lower overall employment leads to people with some health problems being excluded from employment. (Sjukfrånvaren ... 2005).

To the extent that the differences actually relate to early exit and/or sickness benefit being an alternative to unemployment, they are in the end quite redundant from an employment rate perspective. When concentrating on employment rates, it does not matter if a non-employed person is “sick” or “unemployed” or if s/he exits the labour force through unemployment or disability. The person is not in gainful employment – that is what matters.

However, from the point of view of mobilising employment potential, transparent and logical systems would be preferable. When planning policies, it obviously causes headaches if people on sick leave or disability pension in fact are quite able to work, but only lack a job – which seems often to be the case in Sweden and Norway. Similarly, there is no point in providing “activation” and incentives for an “unemployed” person, who in fact is ill or disabled – as is often the case in Finland and maybe also in Denmark. These kinds of mismatches between the actual situation and the benefit system clearly exist in these four countries – at least if we assume that there aren’t huge differences in the health situation of them.

Thus, one could say that the answer to the question posed by Hogstedt et al. (2004, 358) – “*are sickness absence and disability pension more preferable than unemployment*” – is not “yes” or “no”. It is preferable that the benefit received by the person reflects his/her actual situation.

In conclusion, combating increased absence and disability constitutes considerable employment potential in especially Sweden and Norway. This seems to be true even when taking into account the mismatch discussed above. At the same time, the low absence and disability figures in Finland and Denmark may indicate that working life in these countries is less inclusive. In other words, including more people with limited health problems into employment should be a possibility for Finland and Denmark.

7. Conclusions

To illustrate the employment situation in the Nordic countries, we calculated an “hours worked per citizen” figure. The Norwegians manage by working 17 hours per week per person, which is almost two hours less than in Denmark. On the other hand, one employed Dane does the work of less than two citizens, while the corresponding ratio for an employed Finn is nearly 2.2.

Thus far, the general employment rate and hours worked per citizen have been closely correlated. In the future, the demographic changes will most probably lead to a situation, where employment rate must rise in order to keep the other figure on its present level. Another challenge is the work distribution ratio, which can be predicted to rise considerably if new groups of people are not introduced into gainful employment. This ratio can also change quite rapidly, as one employed Finn did the work of 2.5 citizens in 1995.

The findings summarised here should be taken as indications of where the important employment potential for the future might be found. Even the possibilities of mobilising such potential are discussed. However, more detailed analyses about the construction of such potential and the possibilities of mobilising it are issues for further research and policy making.

The most significant potential to increase employment rates can, in our opinion, be found in these sub-groups of the population / phenomena on the labour market:

- The ageing; early exit, very late exit, unemployment
- Unemployment in general, long-term and chronic in particular
- Working time / part-time employment – most indisputable employment potential being among involuntary part-time workers
- Sickness and disability
- Other absence from work, including childcare and care for elderly / disabled family members
- Immigrants as a special sub-group of the population; their unemployment and inactivity
- Future immigration – work-based immigration strategies
- To the extent not covered above: conscripts, housewives etc. and socially excluded people

In this report, we have more or less dealt with the first four points of the list. The remaining four have been beyond the scope of this report either because of lack of data and/or resources.

In the following, the main possible sources of employment potential in the areas covered by this report are listed. They are roughly divided into the four categories mentioned above. Of course, the categories are overlapping in many ways.

7.1 Hours, Part-time Employment

Earlier development suggests that hours worked on average and the general employment rate are not necessarily negatively correlated. There are many examples where both have increased at the same time in the same country. Thus, raising the employment rate does not necessarily have to happen by promoting part-time employment.

However, in cases where many key figures describing employment *are* consistently negatively correlated, one may reasonably assume that the employment of this group cannot easily be increased. This seems to be the case for Danish men – that is, when not talking about the ageing.

In this report, we found that part-time employment constitutes a two-folded labour reserve. Firstly, those working part-time may increase their hours. Secondly, in countries where part-time is rare, those currently not working at all may be included into employment on a part-time basis.

Raising the number of hours worked on average among men seems to be an option only in Norway – in the other countries employed men already work long hours. Instead, there might be potential in getting non-employed men into part-time employment, which would reduce the average working hours but increase total employment.

The gender difference in employment rates is clear in all countries, but its size differs remarkably. The gap between men and women is largest in Denmark and smallest in Sweden. Thus, there seems to be employment potential among especially Danish and Norwegian inactive women.

Women's working time constitutes a major employment potential especially in Norway but also in Sweden and Denmark. Compared to Finland, women in all other countries work less – the difference between Norway and Finland is on average about five hours per week.

Even otherwise, not all employment potential is to be found outside the prime age population. The inactivity rates of this age group fluctuate quite a lot over time, especially when compared gender-wise. This indicates that there is room for change.

Finland and Sweden seem to have potential in increasing the employment of full-time students. This is true at least when compared to Norway and Denmark. Utilising this potential does however entail the risk of replacing other workers and/or postponing graduation from education. An interesting question is, whether the difference between countries in this respect is due to cultural factors (favouring full-time studies), institutions

(e.g. study grants) or to suitable jobs not being available – the latter explanation being most challenging from an employment rate standpoint.

In Finland, both men and women work long hours. The share of part-time employment is low and the general distribution of work among the population relatively uneven. This indicates that Finland should have a large employment potential among the non-employed population, if it was to offer even other options than being either full-time employed or not employed at all. Promoting part-time employment and gradual exit from the labour market might be an advisable policy. Obviously, the risk is that this kind of policy might lead into a situation, where those now working full-time would cut back on their working hours.

Norway and Sweden have a huge potential in promoting a shift to full-time employment among those now working part-time. An especially important sub-group here are women aged 25–64. This kind of policy might of course collide with family policies and the possibility to combine work and family for women with children. This seems to be true only in part, as the difference to Denmark and Finland is so remarkable.

Health and family issues are a considerable self-reported reason for part-time employment only in Sweden. This indicates that the other countries – especially Finland and Denmark – have considerable employment potential in providing more flexible employment options for people in these kinds of situations.

The most unambiguous employment potential concerning increased working time is to be found among involuntary part-time workers. They are a large group in all countries – including Finland, where part-time in general is relatively rare. The largest potential is to be found in Sweden, where 4.3% of the working age population (or about 240 000 people) are part-time workers, who would like to have a full time job. In relative terms, this is most common among the youngest age group. Even in the other countries, we are talking about a population share between 2.6 and 2.8 per cent. It is certainly worth investigating, why this group is deprived of the opportunity to work full-time.

7.2 Unemployment

Unemployment – especially long-term and chronic – constitutes a very significant employment reserve. This is true even though the official long-term unemployed are a relatively small share of the population (from 0.6% in Norway to 1.6% in Finland). Long unemployment spells are often interrupted by active labour market policy measures in all of these countries. Thus, the number of those who are in fact excluded from the open labour market because of chronic unemployment is much larger than the statistics of long-term unemployment reveal. Furthermore, peo-

ple on unemployment-based pensions, which are significant in Finland and Denmark, are also not counted as long-term unemployed.

Thus, we can conclude that the unemployed are a major labour reserve in all countries. This reserve is most significant in Finland and Sweden, but even large in Denmark. For Norway, it is least important.

This reserve is remarkably large even if we take into account that a considerable share of the chronically unemployed are in fact at least partly disabled. This should not be exaggerated; most unemployed are fit to work.

Before talking about the mobilisation of this potential, one should concentrate on preventing chronic unemployment from growing any further. It is a common misconception that the “hard core” of unemployment is a legacy of the recession in the 1990’s. At least in Finland, there is constant new flow to this group. The ageing are overrepresented, but even people in other age groups become chronically unemployed, via two mechanisms. Either they are unable to establish a work career in the first place, or they are excluded after a (sometimes long) career and find that there is no demand for their abilities.

These mechanisms should be further investigated, so that early interventions can be implemented in order to prevent unemployment from becoming chronic. This is crucial, since it is a well-known fact that prolonged unemployment easily becomes a self-explanatory vicious circle.

Mobilisation of the unemployed meets several challenges. First, we should point out that incentive issues do not seem to be among the most significant of these challenges. Chronic unemployment is most of all due to incompatible demand and supply of labour, where the relatively high labour costs in the Nordic countries also play a role.

The qualifications of many unemployed need to be improved or updated. Secondly, the discrimination of job seekers because of age, ethnicity or prolonged unemployment history needs to be combated. Employers need to change their attitudes when it comes to hiring long-term unemployed, and this attitude change needs to be encouraged by policies.

Thirdly, the work ability of the unemployed is a major issue, even though most of them are fit to work. Those who are not should either be directed to rehabilitation measures or offered a chance to take up disability pension. Having disabled people among the unemployed – as is the case at least in Finland – makes things more difficult from a policy standpoint.

Active labour market policy plays a major role in keeping up the work ability of the unemployed. In general, more tailored measures and paths to open labour market are needed for the least employable. On the other end of the employability scale, employers should be bound into the implementation of the active measures more closely.

It should also be remembered that active labour market policy measure participants constitute a large employment potential. This potential is

of course closely connected to unemployment, but in statistics, this major group is most often not included in unemployment. When compared to the level of unemployment, Finland seems to spend least on active labour market policy.

7.3 The Ageing

The ageing – that is, people from about the age of 50 to far beyond the statutory pension age – constitute the largest employment reserve in the Nordic countries. This is the group whose employment potential simply can not be left non-utilised, as its importance is constantly growing. Even though these facts are well understood among policy makers in all four countries, the issue is far from easy.

Finland and Denmark have the largest potential when it comes to preventing early exit from the labour market. When looking at the employment of the over 50-year-olds, employment potential among them seems to be large even in Norway and Sweden. This is true although these two countries are – in comparison – late exit countries, where few generous early exit pathways are offered. This has resulted in a very high utilisation of sickness and disability benefits among the ageing in these countries, though.

As with part-time employment in general, gradual exit from the labour market is a two-edged sword. The question is, if part-time pensions replace full-time retirement or full-time employment – the answer seems to be both. Finland and Denmark have the least part-time employment among the ageing, and at the same time the employment rate of the ageing is lower than in the other countries. This indicates that employment could be increased by providing more flexible solutions.

Unemployment of the ageing constitutes a large employment potential. This is especially true in Finland, but also in the other countries. In all countries – even in Norway where unemployment is relatively rare among the ageing – unemployment tends to last longer if the person is older. The size of the problem is further stressed by the significant unemployment-based early exit options in Finland and Denmark. This problem can only to a degree be regarded as a part of the general unemployment problem.

From another viewpoint, unemployment of the ageing is a part of the early exit problem. When an ageing person is laid off, unemployment tends to last long and very often lead into exit from the labour force. In some cases, this is a direct consequence of unemployment as an early exit pathway. In others, arbitrary unemployment leads out of the labour force because of low re-employment chances.

In any case, combating age discrimination both by institutional and by educational means is a vital strategy in trying to reduce early exit and the unemployment of the ageing.

Regarding very late exit – that is, working past retirement age – there is considerable potential in all countries. This potential is most pronounced in Finland, but according to survey results, it exists even in Norway, which is regarded as a late exit country.

One thing is crucial when talking about any aspect of the employment potential of the ageing – whether it is early exit, unemployment, or very late exit. The decision to withdraw from the labour market is in most cases made only once and it is irreversible. Thus, it is unrealistic to believe that the ageing, who are already excluded from employment could be re-mobilised. The key issue here is to prevent exclusion from employment. For instance, very late exit can only become a fact if early exit of the person can first be prevented.

This entails improving working conditions, fine tuning policies and offering “carrots” for those who continue working. Preventing layoffs is essential, as is intervening early in case of unemployment. Age discrimination should be combated. More flexible arrangements should be encouraged both in the sense of part-time, gradual retirement, and individual job planning according to remaining work ability.

7.4 Sickness Absence and Disability

There is no reason to assume that the four countries would have large differences when it comes to the general health status of their populations. Thus, differences in absence and disability rates are interesting from the employment rate viewpoint. In comparison, both sickness absence and disability are much more common in Sweden and Norway than in Finland or Denmark.

In all countries, women are more often absent from work than men. This is especially true in Sweden, where women are almost twice as much absent than men. Many credible explanations for this phenomenon exist – such as the segregated labour market, combining work and family, pregnancy-related absence, etc. – but none of these accounts for the large difference in differences between Sweden and the other countries. This matter is worth investigating further. Furthermore, as one of the most credible explanations for gender differences are the poorer psychosocial working conditions of female-dominated occupations, doing something about these conditions is relevant from an employment rate perspective.

The most credible explanations to the differences between Sweden and Norway on one hand and Denmark and Finland on the other all point to institutional factors. Sickness absence is an established part of early exit at least in Sweden, but probably also in Norway. Negative correlation

between absence and unemployment in Sweden and Norway indicates that unemployment and absence are to some extent alternative. Furthermore, not having other early exit pathways – such as the unemployment-based ones in Finland and Denmark – can well be a part of the explanation to high absence and disability rates.

One might think that from an employment rate viewpoint, it does not matter whether a person is “sick” or “unemployed”, if s/he is non-employed in any case. This is partly true. However, from the point of view of mobilising employment potential, transparent systems are preferable. When planning policies, it is obviously confusing if people on sick leave or disability pension in fact are quite able to work, but only lack a job – which often seems to be the case in Sweden and Norway.

Similarly, there is no point in providing “activation” and incentives for an “unemployed” person, who in fact is ill or disabled – as is often the case in Finland and maybe also in Denmark. These kinds of “mismatches” between the actual situation and benefit status clearly exist in these four countries – at least if we assume that there are no huge differences in the health situation of them. It is advisable to try to reform the systems into a more transparent direction.

To conclude, combating absence and disability seem to constitute a considerable employment potential especially in Sweden and Norway. This is true even when taking into account the “mismatch” problem discussed above. At the same time, low absence figures in Denmark and Finland may indicate that their working life could be more inclusive for people with somewhat reduced work ability. This hypothesis is further supported by the very small share of part-time employment because of health issues.

Finally, even though the issue was not investigated in this report, it is safe to say that immigrants and immigration also constitute an employment potential. The instant importance of this to the national economy varies substantially between the Nordic countries. As for now, this is most important in Sweden and least in Finland, which has a relatively small immigrant population. However, even in countries with few immigrants, addressing their problems on the labour market is vital. It is hard to imagine that labour supply could be increased by work-based immigration, if the unemployment or inactivity rates of the existing immigrants are very high.

Sammandrag

Virjo, Ilkka: Sysselsättningspotential i Norden – en översikt.

Medan befolkningen åldras, blir det allt viktigare att uppnå och upprätthålla höga sysselsättningsgrader för att säkra den finansiella basen av välfärdstaten. Regeringar strävar efter att inkludera nya delar av populationen i förvärvsarbete. Den generella sysselsättningsgraden i Norden är emellertid redan hög internationellt sett, och det är långt ifrån självklart var ökningen borde komma ifrån. Var finns sysselsättningspotentialen?

Den här rapporten pekar på de viktigaste källor av sådan potential i Danmark, Finland, Norge och Sverige. Dessa länder är både tillräckligt lika och tillräckligt annorlunda för att göra jämförelserna meningsfulla.

De huvudsakliga områden som behandlas är 1) arbetstid och deltidarbete, 2) arbetslöshet – speciellt långvarig och kronisk, 3) de äldre – både tidig och mycket sent utträde ur arbetslivet, samt 4) sjukfrånvaro och arbetsoförmåga. Dessvärre kunde vi inte behandla bl.a. annan frånvaro eller immigration.

De fyra länderna jämförs med ”den bästa eleven i klassen” för att kunna ådagalägga den eventuella potentialen. Till exempel, finska kvinnor har en mycket längre arbetstid än kvinnor i andra länder. Detta indikerar att de andra länderna har sysselsättningspotential i möjligheten att öka kvinnornas arbetstid.

Jämförelser har gjorts med allmänt tillgänglig data. I de flesta fallen har data från arbetskraftsundersökningar antingen från Eurostats eller från de nationella statistiska institutionernas databaser använts.

Den generella utvecklingen av sysselsättningen i de fyra länderna beskrivs och diskuteras först. Därefter går var och en av de fyra ovannämnda områden detaljerat igenom. Slutligen listas sysselsättningspotentialen som jämförelserna pekat på. De resultat som presenteras kan inte betraktas som definitiva, utan mer som riktlinjer om var den eventuella sysselsättningspotentialen kan finnas. Även resultatens indikationer och möjligheten att mobilisera den nämnda potentialen diskuteras.

Nyckelord: Arbetsmarknad, sysselsättning, arbetslöshet, sysselsättningspotential, arbetstid, deltidarbete, de äldre, sjukfrånvaro, arbetsoförmåga, Norden.

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Appendix: Additional Figures

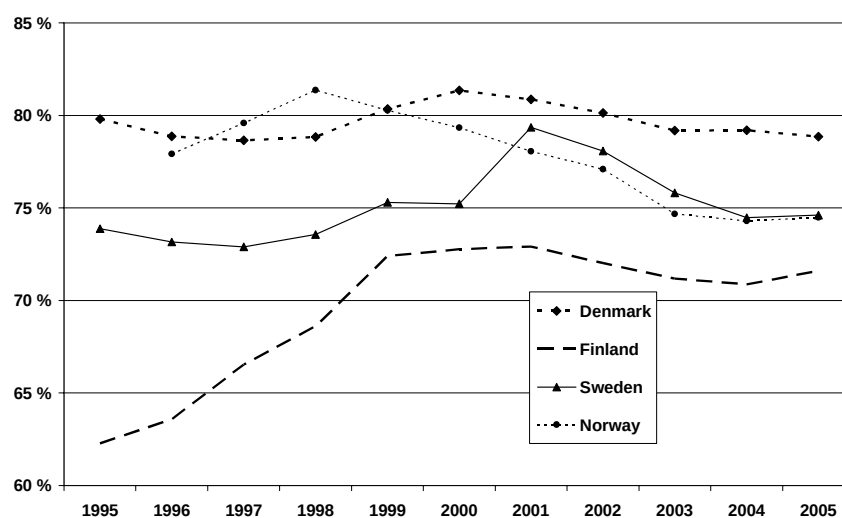


Figure 15 Employment rate of the 15–64-year-old male population adjusted to full-time (40 hrs/week) employment by hours worked per week per employed male (of any age). Sources: Eurostat and SSB Norway, Labour Force Survey..

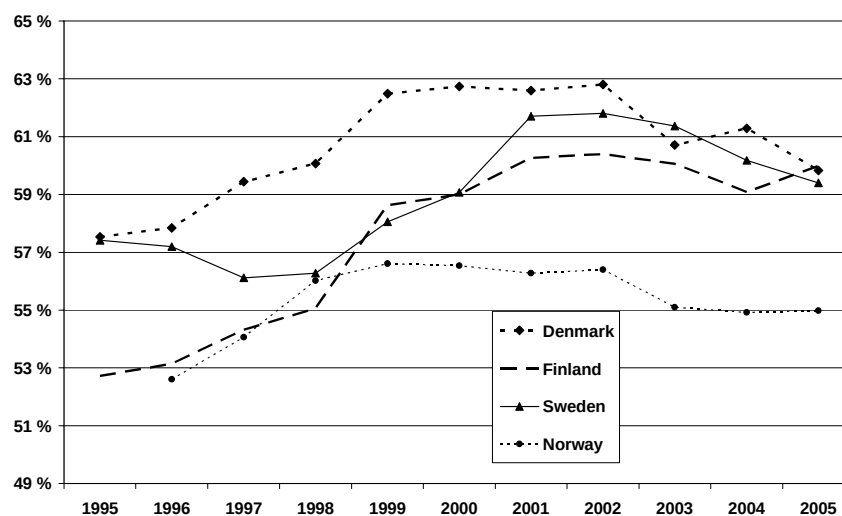


Figure 16 Employment rate of the 15–64-year-old female population adjusted to full-time (40 hrs/week) employment by hours worked per week per employed female (of any age). Sources: Eurostat and SSB Norway, Labour Force Survey.

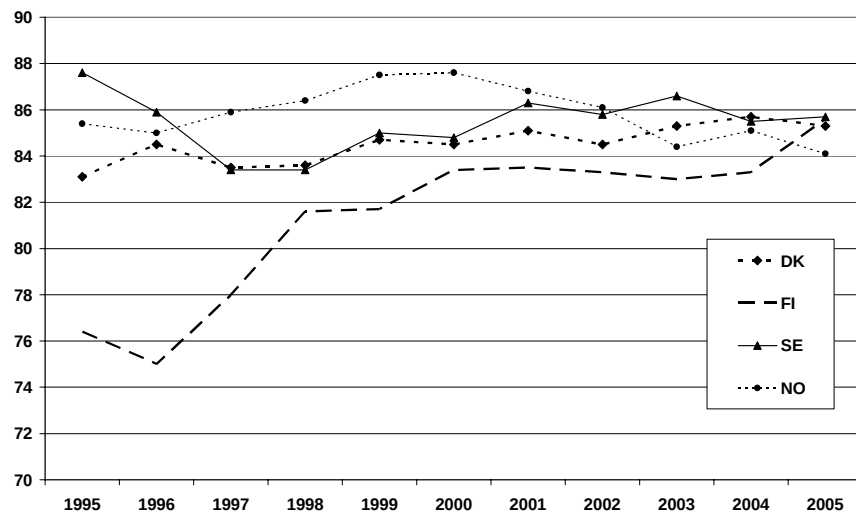


Figure 17 Employment rate of the 45–49-year-old population in four Nordic countries. Source: Eurostat, Labour Force Survey.

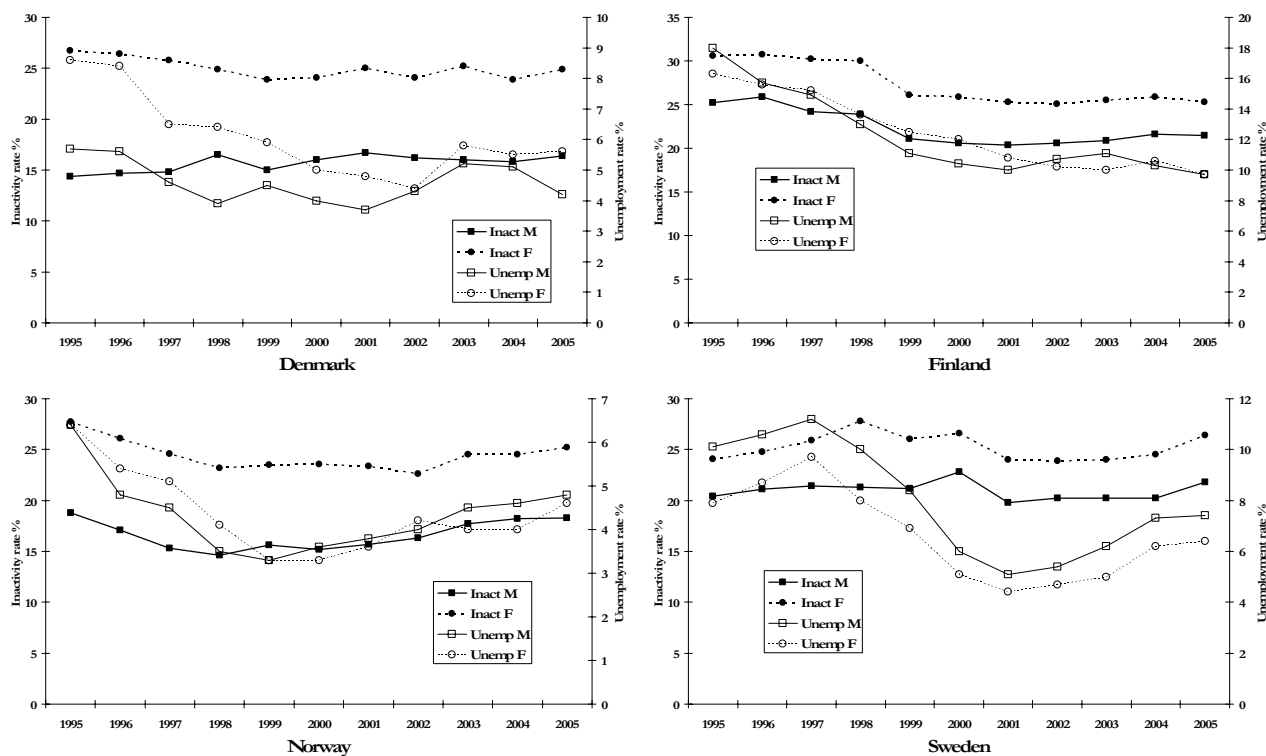


Figure 18 Inactivity (left axis) and unemployment (right axis) rates in four Nordic countries 1995–2005. Male and female population aged 15–64. Source: Eurostat, Labour Force Survey.

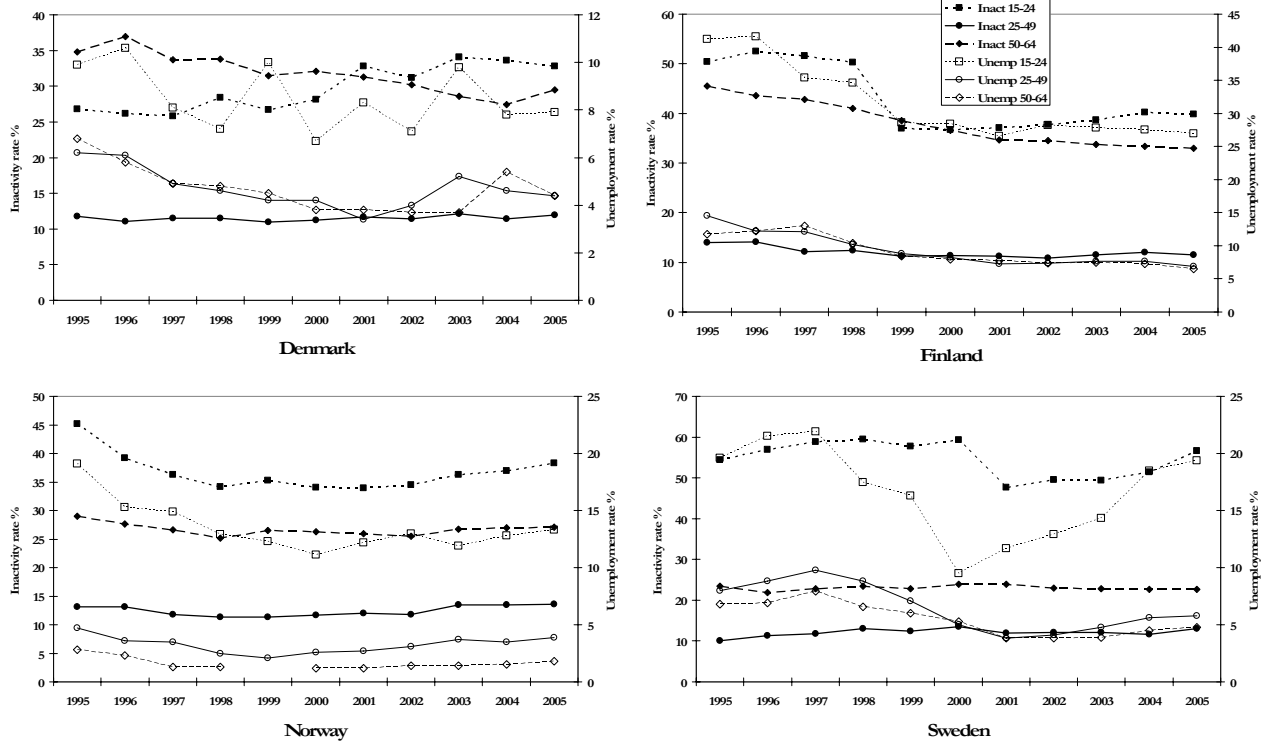


Figure 19 Inactivity (left axis) and unemployment (right axis) rates for three age groups in four Nordic countries 1995–2005. Source: Eurostat, Labour Force Survey.

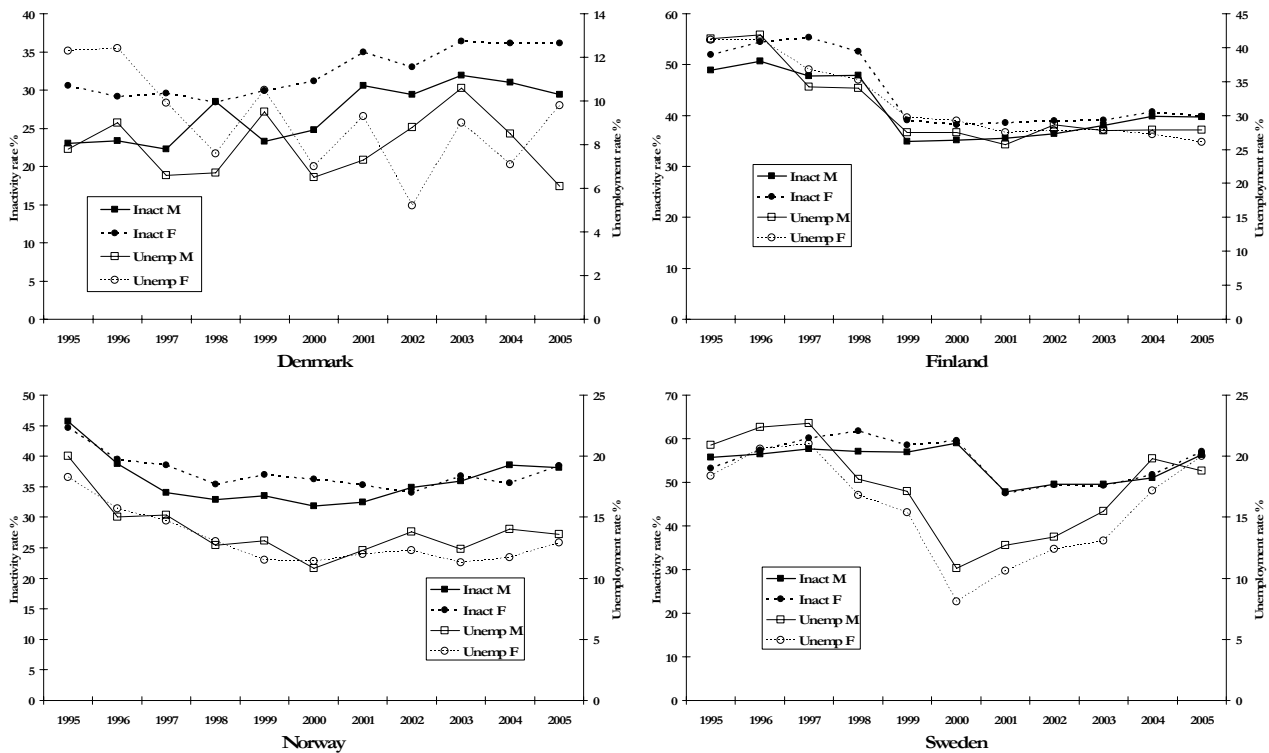


Figure 20 Inactivity (left axis) and unemployment (right axis) rates for 15–24-year-old males and females in four Nordic countries 1995–2005. Source: Eurostat, Labour Force Survey.

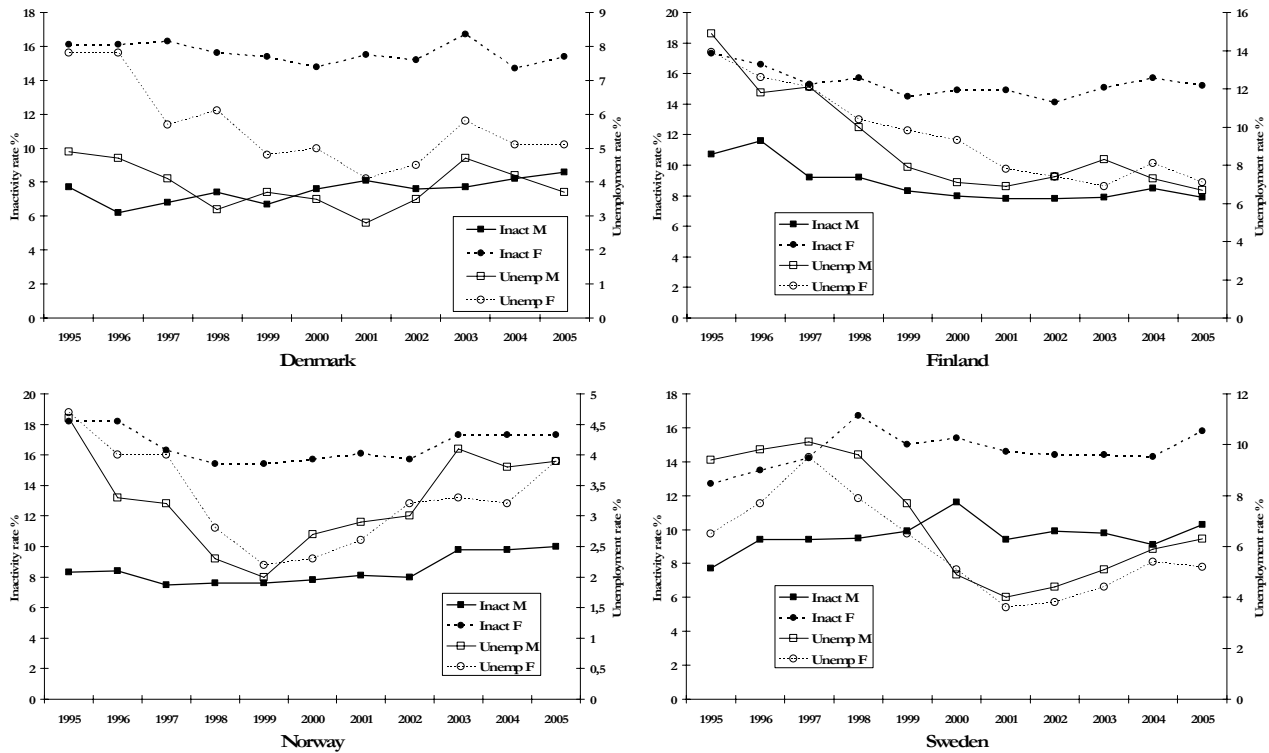


Figure 21 Inactivity (left axis) and unemployment (right axis) rates for 25–49-year-old males and females in four Nordic countries 1995–2005. Source: Eurostat, Labour Force Survey.

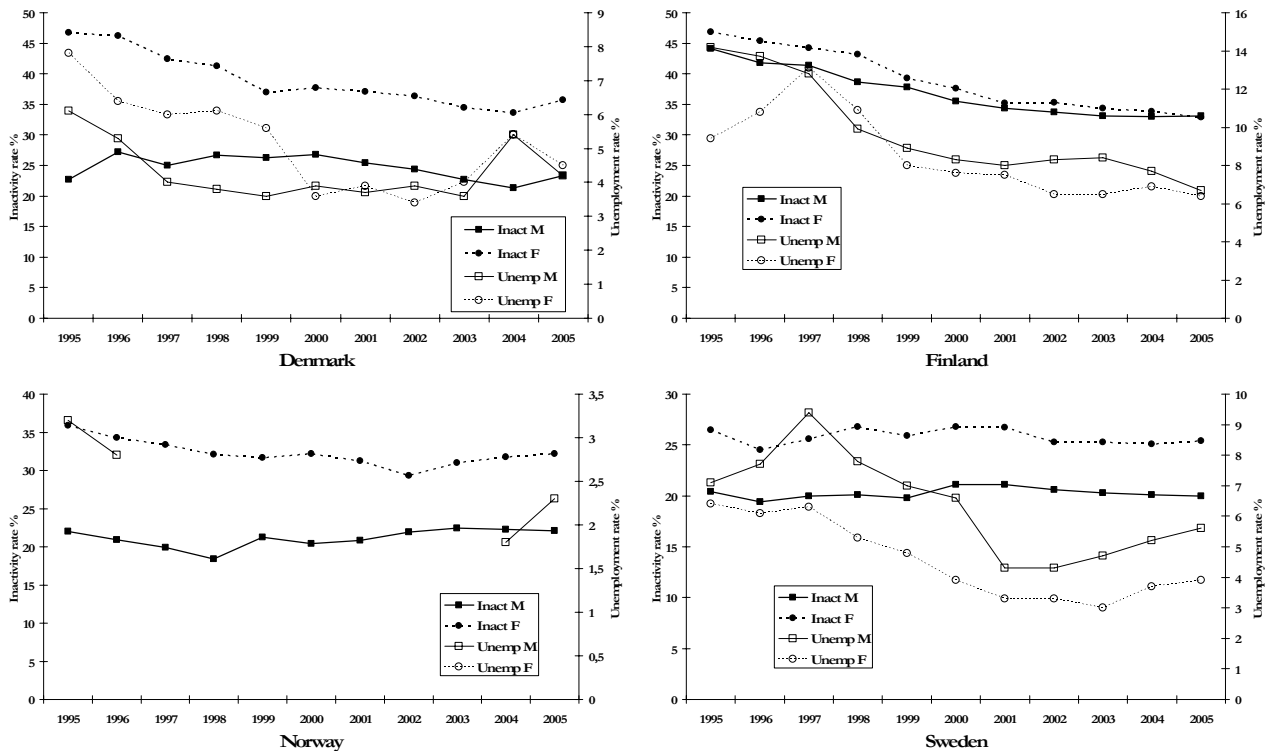


Figure 22 Inactivity (left axis) and unemployment (right axis) rates for 50–64-year-old males and females in four Nordic countries 1995–2005. Source: Eurostat, Labour Force Survey.

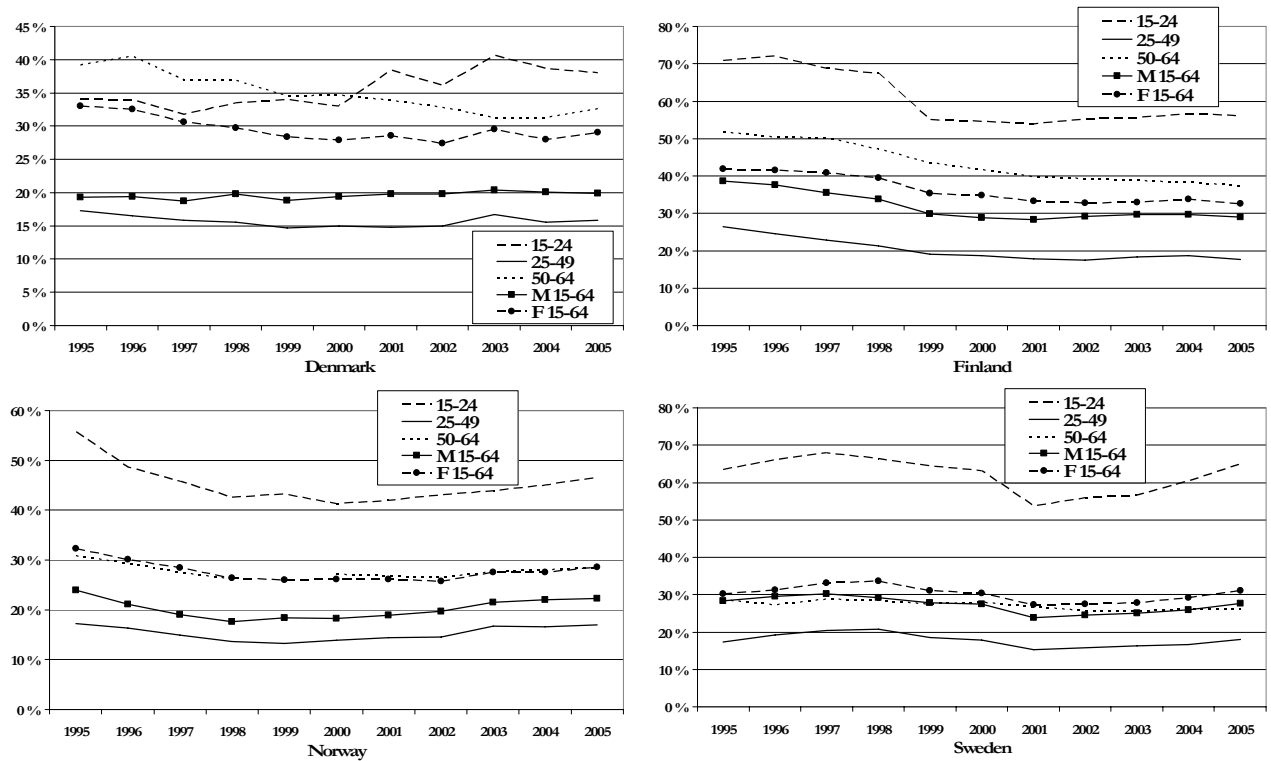


Figure 23 The combined share of inactivity and unemployment of population in four Nordic countries. Both sexes for three age groups, males and females separately for population aged 15–64. Source: Eurostat, Labour Force Survey.

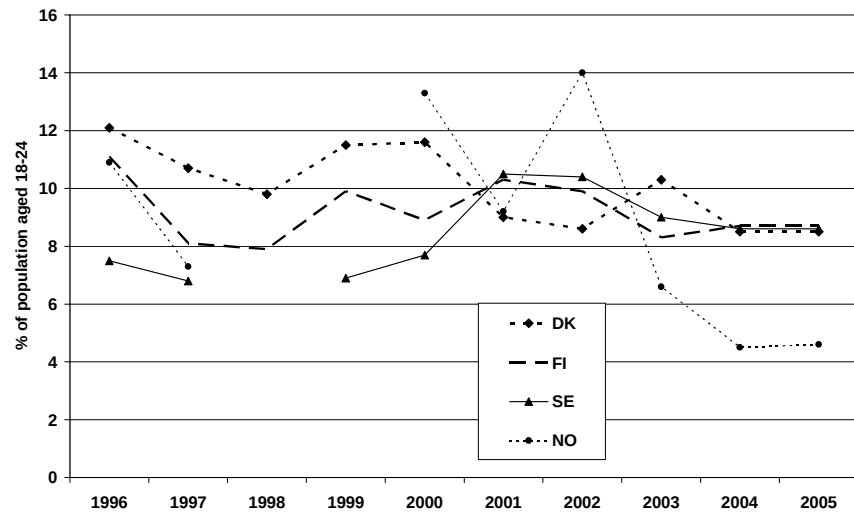


Figure 24 Early school leavers – share of 18–24-year-old population with at most lower secondary education and not in education or training. Source: Eurostat, LFS.

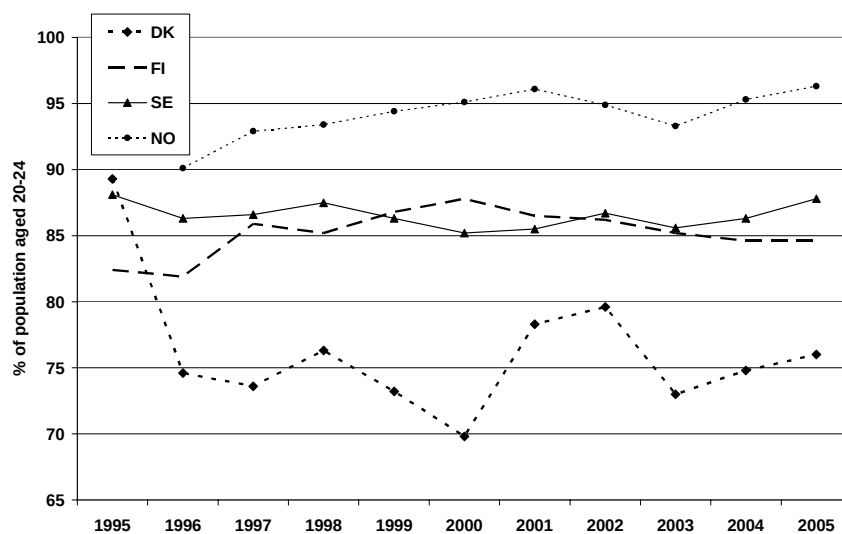


Figure 25 Education attainment level of the young (population aged 20–24). Share of people having completed at least upper secondary education. Source: Eurostat, LFS.

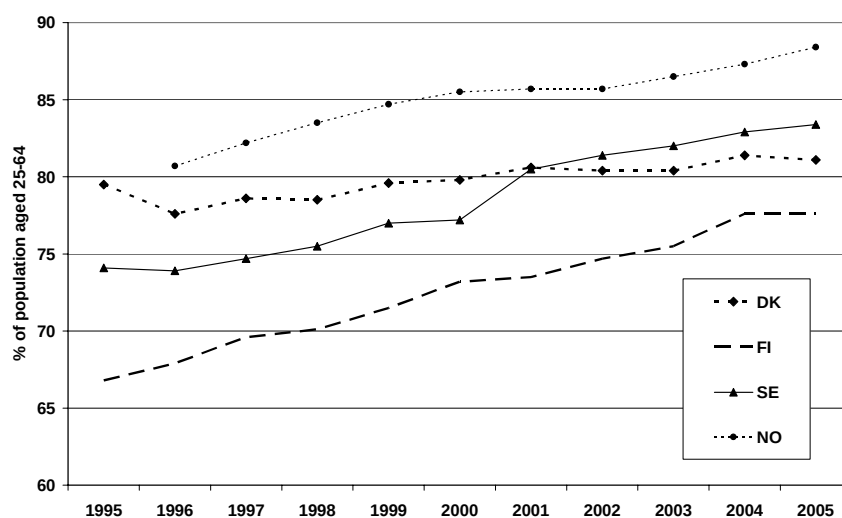


Figure 26 Education attainment level of adults (population aged 25–64). Share of people having completed at least upper secondary education. Source: Eurostat, LFS.

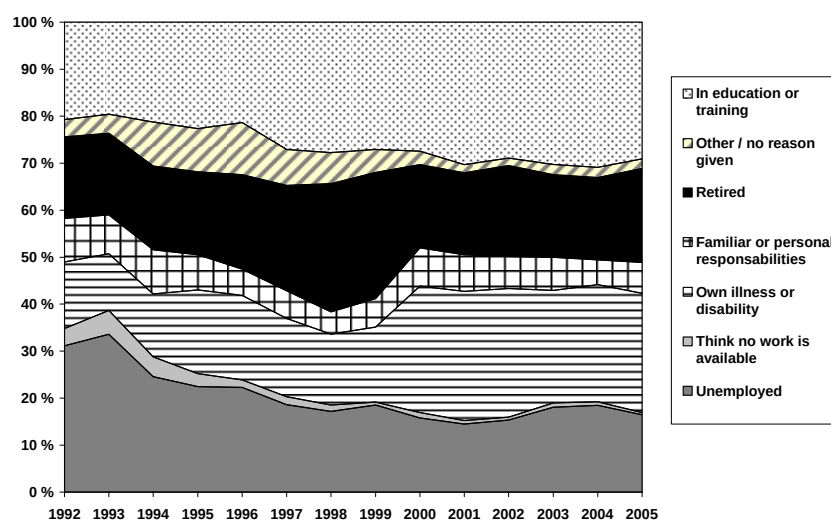


Figure 27 Inactive and unemployed population aged 15–64 in Denmark 1992–2005 (second quarter of the year). Source: Eurostat, LFS.

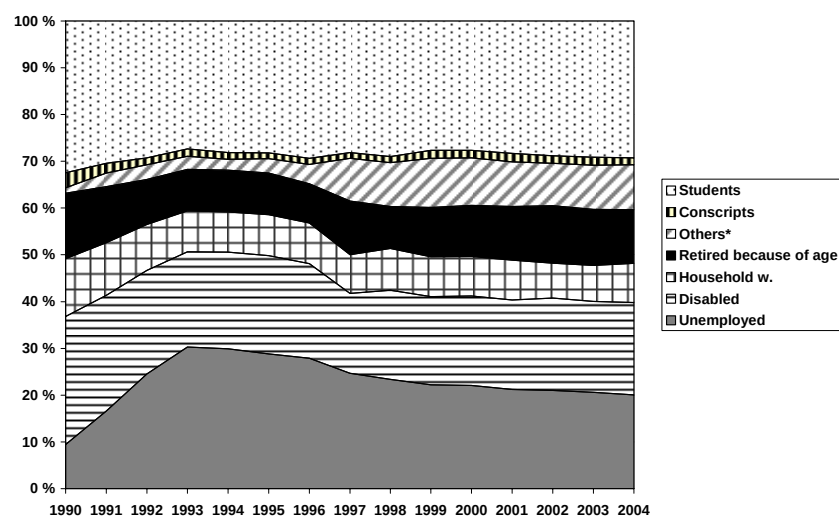


Figure 28 Inactive and unemployed 15–64-year-old population in Finland 1990–2004. Source: LFS, Statbank – Statistics Finland. * = others includes unemployment pension.

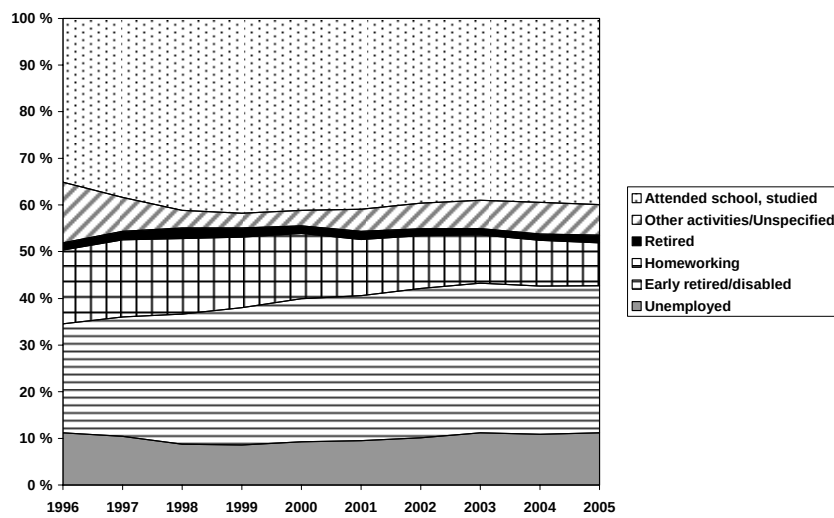


Figure 29 Unemployed and inactive population aged 16–66 in Norway 1996–2005. Source: Statistics Norway, LFS.

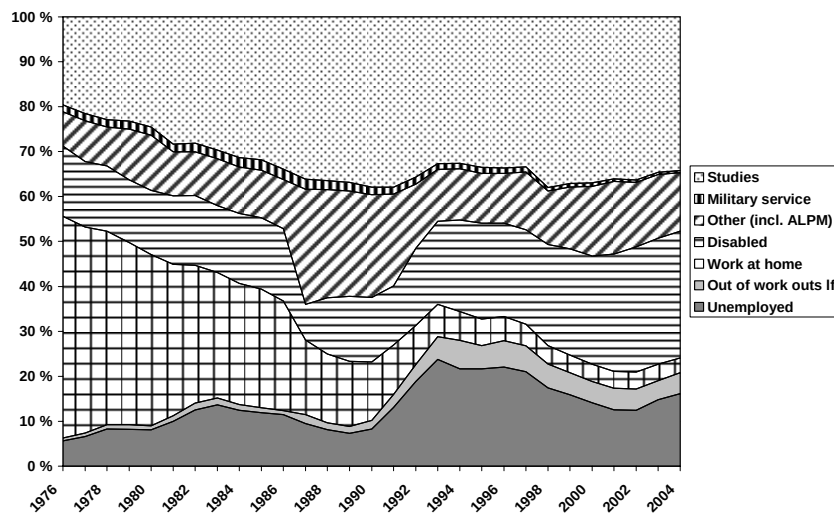


Figure 30 Unemployed and inactive population aged 16–64 in Sweden, including those in active labour market policy measures (ALPM). Source: Statistics Sweden, LFS (“old” LFS before the reform in February 2005).