

SPECIAL ANALYSIS

Policy changes to have lasting effects on labour market

The government presented a number of measures in the 2015 Spring Fiscal Policy Bill that are expected to impact on the labour market, and further proposals are anticipated later this year in the Budget Bill for 2016. The NIER's overall assessment is that these measures will reduce equilibrium unemployment slightly but will also reduce the labour supply. The net effect on employment in the longer term will therefore be slightly negative. This assessment is, however, associated with considerable uncertainty.

The NIER publishes regular medium-term scenarios, currently for the period 2017–2024. These provide a basis for estimating how much space there is for unfunded fiscal policy measures. Many economic policy initiatives have lasting effects on the economy, and so the NIER needs to assess how different measures will impact on key macroeconomic variables.⁹² In the 2015 Spring Fiscal Policy Bill, the government presented a number of measures that are expected to impact on employment in the longer term, and further proposals are expected in the upcoming Budget Bill for 2016. In this special analysis, the NIER assesses the net effects of these measures. The analysis considers the effects of:

- Phasing out reduced employer contributions for young people
- Higher unemployment insurance replacement rates
- New active labour market policies
- Changes to the sickness insurance system
- Changes to the tax reductions for purchases of household services (“RUT” – cleaning, maintenance and laundry) and home improvements (“ROT” – repairs, conversions and extensions).
- New sliding scale for earned-income tax allowance (the tax reduction for income from active work) for incomes above SEK 50,000/month
- Lower indexation of the threshold for central government income tax
- Reduced tax for the over-65s
- Special income tax for the over-65s

Potential variables

Potential GDP is the level of output when the economy is operating at full capacity.

The NIER divides potential GDP into potential productivity and the potential number of hours worked. Potential productivity is the level of productivity that would be observed in the absence of cyclical variations.

The potential number of hours worked is determined by potential employment – i.e. the number of employed when the labour market is in equilibrium – and by their average working hours. Potential employment, in turn, is determined by the potential labour force and equilibrium unemployment – i.e. the labour force and unemployment when the labour market is in equilibrium.

⁹² See “Hur Konjunkturinstitutet beräknar potentiell BNP” [How the NIER estimates potential GDP], memo, NIER, www.konj.se.

The NIER's assessment is that these measures will reduce labour force participation in the longer term. The greatest effect on labour force participation will come from the removal of the time limit in the sickness insurance system (see Table 1). At the same time, active labour market policies are expected to bring down equilibrium unemployment somewhat. This is because some job seekers will now be recorded as being in employment in the official statistics. However, subsidised employment that is more like ordinary employment also tends to increase the chances of those concerned finding work on completing the programme.⁹³

Table 19 Long-term effects of the economic policies in the 2015 Spring Fiscal Policy Bill and Budget Bill for 2016

Per cent or percentage points

	Potential labour force	Equilibrium unemployment	Potential employment
Phasing out reduced employer contributions for young people	-0.1	0.1	-0.2
Higher unemployment insurance replacement rates	*	0.2	-0.2
Active labour market policies	*	-0.2	0.2
Changes to sickness insurance system	-0.3	-0.2	-0.1
Special income tax for the elderly	-0.0	*	-0.0
Total	-0.4	-0.1	-0.3

Note. Effects on potential labour force and potential employment expressed as a percentage. Effects on equilibrium unemployment expressed in percentage points. Totals may not agree due to rounding.

* Effects considered negligible and so not quantified.

Source: NIER.

On balance, the NIER expects the government's economic policies to permanently lower the number of employed by just over 0.3 per cent, or 15–20,000 people. The effects on potential

⁹³ See Calmfors, L. et al., "Vad vet vi om den svenska arbetsmarknadspolitikens sysselsättningseffekter?" [What do we know about the employment effects of active labour market policies in Sweden?], Report 2002:8, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU); and Forslund, A. and J. Vikström, "Arbetsmarknadspolitikens effekter på sysselsättning och arbetslöshet – en översikt" [The effects on employment and unemployment of active labour market policies – an overview], Annex 1 to Långtidsutredningen 2011 [The Long-term Survey 2011], in *Vägen till arbete – arbetsmarknadspolitik, utbildning och arbetsmarknadsintegration* [The road to work – labour market policy, education and labour market integration], SOU 2010:88.

GDP are estimated to be somewhat smaller. This is because labour force participation will fall mainly among those whose skills and abilities are such that they will tend to be restricted to jobs with below-average productivity.

The NIER's assessment of the measures

HIGHER EMPLOYER CONTRIBUTIONS FOR YOUNG PEOPLE WILL REDUCE EMPLOYMENT SLIGHTLY

A general increase in employer social security contributions will normally have a very limited effect on potential employment, because the initial rise in labour costs will be reflected in wage formation. Both theoretical and empirical research indicates that general increases in employer contributions are passed on fully into wages in the longer term.⁹⁴ Firms' labour costs – and employment – are therefore expected to be unaffected by the higher employer contributions in the longer term.⁹⁵

This reasoning is harder to apply to a rise in employer contributions for young people.⁹⁶ Their wages are heavily influenced by the minimum wages in collective agreements. A relatively high proportion of young people have limited relevant experience and skills, making them less productive. Many are also employed for duties that, in themselves, add relatively little value. The value added by many young people's work therefore only marginally exceeds the labour cost associated with the minimum wage. An increase in employer contributions for young people may therefore push the labour cost higher than the value added in some cases. Employment among young people will therefore decrease.

The NIER estimates that employment among young people will fall by around 20,000 in the longer term due to the phasing-

⁹⁴ See, for example, Benmarker, H. et al., "Är sänkta arbetsgivaravgifter ett effektivt sätt att öka sysselsättningen?" [Are lower employer contributions an effective way of increasing employment?], Report 2008:16, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU).

⁹⁵ These conclusions build on the assumption that replacement rates in the social insurance systems are kept unchanged and that the labour supply is therefore unaffected.

⁹⁶ The reduced contributions apply to young people aged 24 and under.

out of reduced employer contributions.⁹⁷ Much of this decrease in employment among young people will, however, be offset by an increase in employment among those over the age of 25.⁹⁸ The net effect is estimated to be a reduction in employment of around 8,000 people, or around 0.2 per cent. This moderate decrease calls into question whether the reduction in employer contributions for young people has been a cost-effective measure given that many young people who were already in work have also been covered by this subsidy.

The reduced demand for labour is expected to lead to a slight decrease in labour force participation. It is likely that young people who do not find work will instead begin to study or leave the labour force for some other reason. The NIER estimates that the net effect on the potential labour force will be a decrease of around 0.1 per cent. Equilibrium unemployment is therefore expected to rise by around 0.1 percentage point as a result of this policy change.

HIGHER CEILING FOR UNEMPLOYMENT BENEFITS WILL PUSH UP EQUILIBRIUM UNEMPLOYMENT BUT REDUCE INCOME INEQUALITY

From 7 September 2015, the ceiling for unemployment insurance benefits will rise from SEK 680 to SEK 910 per day for the first 100 days and SEK 760 per day thereafter. The basic benefit will also climb from SEK 320 to SEK 365 per day. These changes mean that the average replacement rate will rise, which can be expected to reduce the incentive to seek work and lead to higher wage demands.⁹⁹ This will likely push up equilibrium unemployment somewhat. The increase in the unemployment insurance ceiling and basic benefit may nevertheless be justified

⁹⁷ The reduced contributions are due to be phased out in two stages, returning to the standard rate from 1 July 2016. The phasing-out of reduced contributions means that labour costs for young people will climb almost 14 per cent. Given demand elasticity of -0.3 (see Egebark, J. and N. Kaunitz, "Sänkta arbetsgivaravgifter för unga" [Reduced employer contributions for young people], Report 2013:26, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU)), this will decrease demand for young workers by 4 per cent, or just over 20,000 people.

⁹⁸ Subsidised employment is associated with substitution effects. In an evaluation of the New Start programme, Liljeberg, L. et al. found that 63 per cent of new hires would have happened even without the subsidy, see Liljeberg, L. et al. "Leder nystartsjobben till högre sysselsättning?" [Do New Start jobs result in higher employment?], Report 2012:6, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU). The NIER has assumed a substitution effect of 60 per cent.

⁹⁹ For a review of the literature, see Forslund, A. "Den svenska jämviktsarbetslösheten – en översikt" [Swedish equilibrium unemployment – an overview], Report 2008:17, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU), and Skogman Thoursie, P., "Ekonomiska incitament inom arbetslöshets- och sjukförsäkringarna" [Economic incentives in the unemployment and sickness insurance systems], Background Report No. 9, Swedish Parliamentary Social Insurance Commission, 2012.

given that the ceiling has been unchanged in nominal terms since 2002. If the ceiling for benefits is not raised for a long period, unemployment insurance will not act as a buffer for career change, which could reduce matching efficiency in the labour market.

How much of an effect this has on equilibrium unemployment depends on the size of the increase in the effective replacement rate, and on how sensitive to such a change individuals are believed to be. Estimates using the FASIT model show that the average replacement rate will rise by around 4 percentage points as a consequence of the increase in unemployment benefits.¹⁰⁰ It is, however, uncertain how many people will be affected by the changes. Many unemployed will not be affected at all because they have not worked enough in the past year and are therefore not eligible for benefits.¹⁰¹ Many workers will not be affected by the increase in the ceiling either, as they have supplementary unemployment insurance that replaces incomes above the ceiling in the standard system.¹⁰² Previous assessments of equilibrium unemployment have to some extent discounted expectations of higher benefits.¹⁰³ Against this background, the NIER estimates that the average replacement rate will rise by only half the amount indicated by the FASIT model, in other words by around 2 percentage points.

On balance, higher replacement rates make it slightly less profitable to work rather than be unemployed. Using the NIER's standard estimation methods, this means that equilibrium unemployment will rise by just over 0.2 percentage point.¹⁰⁴ An increase in unemployment insurance benefits does, however, mean that income inequality will be slightly reduced.^{105, 106}

¹⁰⁰ Estimated using FASIT 2012 version 4, data from Statistics Sweden's Household Finances Survey (HEK).

¹⁰¹ At the end of 2013, only around 40 per cent of the open unemployed registered with the Swedish Public Employment Service received benefits through the unemployment insurance system. See *Labour Market Report 2014*, Swedish Public Employment Service.

¹⁰² Simulations in FASIT capture supplementary unemployment insurance taken out through collective agreements but not individual policies taken out through trade unions or private players. For an overview, see Sjögren Lindquist, G. and E. Wadensjö, "Avtalsbestämda ersättningar, andra kompletterande ersättningar och arbetsutbudet" [Collectively agreed benefits, other supplementary benefits and the labour supply], Report to the Expert Group on Public Finances, 2011:4.

¹⁰³ See the special analysis "Long-term effects of economic policy reforms on the labour market" in *The Swedish Economy*, December 2011.

¹⁰⁴ The NIER assumes quasi-elasticity of 0.12. See "How should the functioning of the labour market be assessed?", Report from the Economic Affairs Department at the Ministry of Finance, 2011:1.

¹⁰⁵ See "Fördelningseffekter av sex förslag ur budgetpropositionen för 2015" [Distribution effects of six proposals in the Budget Bill for 2015], Background Report 2015/3, Swedish Fiscal Policy Council.

One additional effect of a higher replacement rate is that labour force participation may increase. Higher unemployment benefits enhance the incentive to participate in the labour force. At the same time, higher unemployment means that fewer people want to participate. The net effect on the labour force is expected to be limited and does not warrant any revision of the potential labour force.

CHANGES TO ACTIVE LABOUR MARKET POLICIES WILL BOOST EMPLOYMENT

Active labour market policies affect the labour supply and unemployment in both the short and the longer term. Through support and monitoring, these policies can influence the unemployed's job-seeking behaviour. In most cases, applying for jobs is the most important route to employment, but different approaches are needed for some. Active labour market policies can help make these people more attractive to employers either by developing their skills or by subsidising their employment.¹⁰⁷

The government plans to modify and expand its active labour market policy initiatives and increase the number of places in adult education. The key changes are as follows:

- Traineeships: Young jobless people will be given an opportunity to work 50 per cent of the time and receive vocational training the rest of the time. Subsidised traineeships are possible in the welfare sector and also in other parts of the labour market where there are shortages.
- Education contracts: Within 90 days of becoming unemployed, young people will have to start or return to studying with the aim of completing upper secondary education.
- Extra Jobs: Jobs for the long-term unemployed in the welfare sector on collectively agreed wages will gradually replace the employment phase (phase 3) of the Job and Development Guarantee.

¹⁰⁶ In the short term, however, a fully funded increase in unemployment benefits may lead to greater demand in the economy and so lower unemployment, see the special analysis "Vårpropositionen 2015" [The 2015 Spring Fiscal Policy Bill] in the Swedish version of the present report.

¹⁰⁷ See Forslund, A. and J. Vikström, "Arbetsmarknadspolitikens effekter på samsättning och arbetslöshet – en översikt" [The effects on employment and unemployment of active labour market policies – an overview], Annex 1 to Långtidsutredningen 2011 [The Long-term Survey 2011], in *Vägen till arbete – arbetsmarknadspolitik, utbildning och arbetsmarknadsintegration* [The road to work – labour market policy, education and labour market integration], SOU 2010:88.

Both the traineeship and Extra Jobs programmes are expected to affect unemployment in the official statistics, because job seekers on these programmes will be classified as being employed. Subsidised positions like these that are more like ordinary employment also tend to increase the chances of those concerned finding work on completing the programme.¹⁰⁸

On balance, the changes to active labour market policies are expected to make equilibrium unemployment around 0.2 percentage points lower and employment in the longer term around 0.2 per cent higher.

INCOME TAX CHANGES WILL HAVE LITTLE IMPACT ON EQUILIBRIUM UNEMPLOYMENT

The NIER expects the changes to the taxation of income to have a negligible effect on equilibrium unemployment. This applies to the new sliding scale for the earned-income tax allowance, the lower indexation of the threshold for central government income tax, and the reduced tax for the over-65s. The main reason why these measures will not affect equilibrium unemployment is that unemployment is very low to start with in the groups directly affected by the changes.

¹⁰⁸ When it comes to subsidised employment, studies show that the programmes that are most like ordinary employment work best. However, they also appear to have the greatest crowding out effects, see Calmfors, L. et al., "Vad vet vi om den svenska arbetsmarknadspolitiken sysselsättningseffekter?" [What do we know about the employment effects of active labour market policies in Sweden?], Report 2002:8, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU). In addition, these programmes have higher costs, which may mean that fewer can take part in them.

Based on calculations from the Ministry of Finance, the effects are estimated on the basis of the following principle:

employment effect = number of participants × (1 – crowding out) + number of participants × treatment effect in days / 365.

Estimates of these effects are associated with considerable uncertainty. The methodology implies that all other potential effects of active labour market policies, such as those on wage formation, and effects on matching and labour force participation in the longer term are negligible.

The NIER assesses that the estimated volumes in the 2015 Spring Fiscal Policy Bill will be hard to achieve, partly because employers may find it difficult to provide training. Previous experience shows that it also takes time to phase different measures in and out. The estimated volumes have therefore been halved to around 10,000 Extra Jobs and around 5,000 traineeships in the longer term. Crowding out has been estimated at 60 per cent. The treatment effect for Extra Jobs has been set at 120 days, the same as used by the Ministry of Finance and the Public Employment Service for New Start jobs. This may be on the high side, as analyses show that directly-created jobs in the public sector rarely bring major positive opportunities for finding unsubsidised work in the short term. The treatment effect for traineeships has been set at 4 days, the same as used by the Ministry of Finance for apprenticeships. Overall, the analysis indicates relatively minor effects from the different types of measures for young people. The employment effects of the measures in the employment phase (phase 3) of the Job and Development Guarantee are deemed negligible. See "How should the functioning of the labour market be assessed?", Report from the Economic Affairs Department at the Ministry of Finance, 2011:1; *Labour Market Report 2014*, Swedish Public Employment Service; and *Swedish Fiscal Policy 2010*, Swedish Fiscal Policy Council.

The incentive to work rather than not work will decrease slightly for high earners when the earned-income tax allowance is on a sliding scale and when more people are paying central government income tax. But the impact on employment and equilibrium unemployment is expected to be small, because this group has a low risk of unemployment, has low replacement rates to start with (at least from the standard unemployment insurance system) and consists of relatively few people. The incentive to work will remain high following these tax increases, which means that labour force participation will not decline notably either.

Nor is the reduced tax for the elderly – more specifically an increase in the basic allowance for those over 65 on annual incomes below SEK 240,000 – expected to have any appreciable effects on equilibrium unemployment. For one thing, labour force participation in this age group is low. For another, unemployment in this group is low, because they are not eligible for unemployment insurance benefits.¹⁰⁹ The incentive to work for pensioners on annual incomes below SEK 240,000 is already low due to the system of guaranteed pensions and housing supplements.¹¹⁰ This incentive will be weakened further when the basic allowance for the elderly is raised.

The new sliding scale for the earned-income tax allowance and lower indexation of the threshold for central government income tax could affect average hours worked and potential productivity. The majority of those directly affected by the income tax hikes will see increases in marginal and average taxes. Higher marginal taxation will result in a reduced incentive to work more hours, because the individual will keep less of the increase in income after tax (substitution effect). Higher average taxation, however, will mean that the individual has to work more hours to achieve a given level of income after tax (income effect). The NIER estimates that the net impact of these two opposing effects on average hours worked will be negligible.

Higher taxes on high incomes may affect how hard people work, as future pay increases are then worth less. This may have a negative effect on productivity. The higher taxes also lead to a decreased education premium, reducing the incentive to under-

¹⁰⁹ Unemployment in 2014 was 3.0 per cent among those aged 65–74 and 7.9 per cent for the 15–74 age group.

¹¹⁰ See *Längre liv, längre arbetsliv: Förutsättningar och hinder för äldre att arbeta längre* [Longer lives, longer working lives: What older people need and do not need to work longer], preliminary report of the Swedish Retirement Age Commission, SOU 2012:28.

take further training. In the long term, this could reduce potential productivity.

SPECIAL INCOME TAX FOR ELDERLY MAY REDUCE LABOUR FORCE AND EMPLOYMENT

The increase in special income tax is expected to reduce employment among the elderly in the short term through decreased demand for labour. The long-term effect will depend on how wages for the elderly react, as this will impact on the labour supply in this age group. The NIER estimates that employment will decrease slightly due to the broadening of special income tax.¹¹¹ The fall in employment will result in elderly people leaving the labour force rather than becoming unemployed, and so equilibrium unemployment is not expected to be affected by the change.

CHANGES TO DEDUCTIONS FOR HOME IMPROVEMENTS AND HOUSEHOLD SERVICES WILL HAVE NEGLIGIBLE IMPACT ON LABOUR SUPPLY

The NIER expects that the changes to the tax deductions for purchases of household services (“RUT” – cleaning, maintenance and laundry) and home improvements (“ROT” – repairs, conversions and extensions) will have negligible effects on the labour market.

The NIER has found previously that the household services deduction implies permanently higher employment and lower unemployment.¹¹² The increase in employment is driven by a number of factors: a reduction in the black economy,¹¹³ an increase in the labour supply among those buying these services, and an inflow of labour into the market for these services from groups previously unemployed or outside the labour market.

¹¹¹ Laun, L., “Om förhöjt jobbskatteavdrag och sänkta arbetsgivaravgifter för äldre” [A higher earned-income tax allowance and lower employer contributions for the elderly], Report 2012:16, Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU), looks at the effect of the increased earned-income tax allowance and reduced employer contributions for the elderly introduced in 2007. It is not possible to separate the effects of these two changes in the study’s results. If, however, we assume the effects are equally distributed, the employment elasticity with respect to net income from employment is estimated at 0.25. If this spills fully over into wages, the introduction of the special income tax means that net income from employment (with unchanged income tax and unchanged hours worked) falls by just over 6 per cent. This results in a reduction of the labour supply among the elderly of 1.5 per cent, or around 2,000 people.

¹¹² See the special analysis “Long-term effects of economic policy reforms on the labour market” in *The Swedish Economy*, December 2011.

¹¹³ This will not, however, affect the number of employed as defined in Statistics Sweden’s Labour Force Survey (LFS).

The government is now proposing that the ceiling for the deduction of purchases of household services is lowered from SEK 50,000 to SEK 25,000 per person per tax year for taxpayers below the age of 65. The NIER expects this change to have negligible effects on employment in the longer term, because demand for household services will not be greatly affected. At present, only a very small number of people spend more than SEK 25,000 per year on these services.^{114,115}

The government also proposes that the subsidy for home improvements is lowered from 50 to 30 per cent. This is not expected to affect employment in the longer term. The home improvements deduction is believed to have less of an effect on the labour supply than the household services deduction. One important reason for this is that these services are generally more complex and therefore require more skills than those covered by the household services deduction. As a result, not as much domestic work is replaced with market work.¹¹⁶ The reduction in demand will still lead to reduced employment in the home improvements sector, but this effect will be offset by higher employment in other sectors. There is, however, a tangible risk of an increase in the black economy.

CHANGES TO SICKNESS INSURANCE WILL REDUCE LABOUR FORCE PARTICIPATION

Sickness benefit is currently time-limited in that it is normally paid only for a maximum of 2½ years at a time. Those reaching the end of this period are invited to participate in the Swedish Public Employment Service's Working Life Introduction (ALI) programme for three months. If the person's capacity to work is still impaired, he or she can then apply for a fresh period on sickness benefit. The government now plans to abolish this time limit in the sickness insurance system from 1 January 2016. Dis-

¹¹⁴ An estimated 460,000 people below the age of 65 will make deductions for household services in 2016, of whom only around 12,000 will claim more than SEK 25,000. See "Förändringar i husavdraget" [Changes in the household services deduction], consultation response, NIER, 2015.

¹¹⁵ Halldén and Stenberg find a positive relationship between women's labour supply and the use of the tax deduction for household services. Income from employment increased most among women using 40–80 hours of these services a year. See Halldén, K. and A. Stenberg, "Ökar RUT-avdrag kvinnors arbetsmarknadsutbud?" [Do tax deductions for household services increase women's labour supply?], *Ekonomisk debatt*, No. 2, 2015.

¹¹⁶ See *Swedish Fiscal Policy 2010*, Swedish Fiscal Policy Council.

ability and incapacity benefit will also be raised from 64 to 64.7 per cent of imputed income from 1 October 2015.¹¹⁷

Since the new rules with fixed time limits were introduced in 2008, around 100,000 people have exited the sickness insurance system due to the time limit, and 10,000 of these have hit the time limit a second time. Around 85,000 have taken part in the ALI programme. Surveys indicate that around 17 per cent of those who took part in the ALI programme in 2010–2013 were in employment or education 270 days after completing the programme.¹¹⁸ Around 43 per cent were still registered with the Public Employment Service as open unemployed or on job creation schemes, and around 40 per cent were no longer registered with the Public Employment Service and had probably returned to the sickness insurance system. Both the proportion of people leaving the Public Employment Service to work and the proportion of those returning to the sickness insurance system have increased over time. According to the Swedish Social Insurance Agency, around 65 per cent of those reaching the time limit for the first time in 2013 returned to the sickness insurance system.¹¹⁹ There is also a large group who are still registered with the Public Employment Service. The number of people registered with the Public Employment Service who were taking, or had previously taken, part in the ALI programme was almost 30,000 in March 2015.¹²⁰

There has not been any evaluation looking directly at the effects of the time limit in the sickness insurance system, but there have been studies showing that a rehabilitation chain with set time limits, where the right to sickness benefit is tested against various conceivable types of employment, has helped shorten periods of sickness absence and reduce the number of people on long-term sickness absence.¹²¹ Empirical evidence from both the sickness insurance system and the employment insurance system alongside it shows that time limits, replacement rates and con-

¹¹⁷ Imputed income is based on previous income during a period that depends on the age of the insured (guaranteed benefits are paid to those on low incomes or no income).

¹¹⁸ See "Arbetsförmedlingens återrapportering 2014, tidiga och aktiva insatser för sjukskrivnas återgång i arbete, 6b Arbetslivsintroduktion" [Early and active efforts to get the sick back to work, 6b: Working Life Introduction], Swedish Public Employment Service, 2014.

¹¹⁹ See "Sjukfrånvarons utveckling, delrapport 1, år 2014" [Sickness absence, interim report 1, 2014], Social Insurance Report 2014:12, Swedish Social Insurance Agency.

¹²⁰ Information from the Swedish Public Employment Service's statistics unit.

¹²¹ See Hägglund, P., "Do time limits in the sickness insurance system increase return to work?", *Empirical Economics*, 2012, volume 45, pp. 567–582.

trols of various kinds have a bearing on the use of these systems. One general conclusion is that generous rules – in the form of high replacement rates and low levels of control – lead to increased use of the insurance system, and vice versa.¹²²

On balance, the NIER believes that the changes to the sickness insurance system – and most notably the abolition of the time limit – will mean that the number of people on sickness benefit will rise. The increase in the replacement rate is only minor, and the expected effects are therefore limited. There are also indications that the Social Insurance Agency is becoming less likely to test the right to benefits at the set time limits in the rehabilitation chain.¹²³ These measures are expected to reduce the labour supply by around 0.3 per cent, or just over 15,000 people. Equilibrium unemployment is estimated to fall by around 0.2 percentage point, partly as a direct effect of a reduced flow from the sickness insurance system to the ALI programme and other active labour market policy programmes.

¹²² See Gautier, P. and B. van der Klaauw, "Att kombinera socialförsäkringar med incitament till arbete" [Combining social insurance with incentives to work], Annex 8 to Långtidsutredningen 2011 [The Long-term Survey 2011], SOU 2011:2, in *Vägen till arbete – arbetsmarknadspolitik, utbildning och arbetsmarknadsintegration* [The road to work – labour market policy, education and labour market integration], SOU 2010:88; and "Tidsgränser i sjukförsäkringen" [Time limits in the sickness insurance system], Report 2015:5, Swedish Social Insurance Inspectorate.

¹²³ See "Tidsgränser i sjukförsäkringen" [Time limits in the sickness insurance system], Report 2015:5, Swedish Social Insurance Inspectorate.