

Employment Protection, Collective Bargaining, and Labour Market Resilience - The Swedish Transition Agreements

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1. Introduction

In his editorial to the *OECD Employment Outlook 2017*, the organisation's Director for Employment, Labour and Social Affairs Stefano Scarpetta makes the case for finding more efficient ways to help workers who lose their jobs, e.g. due to structural change, to move from declining sectors and occupations into sectors and occupations where new jobs are being created.

“Some of the most successful examples re-employment assistance for these workers are those – such as Job Security Councils in Sweden – where the social partners play an active role in providing adjustment assistance to workers who will be laid-off, tailoring the assistance offered to specific needs to the affected workers and beginning to deliver that assistance during the notification period prior to the workers becoming unemployed.”²

In the same Employment Outlook, which is seen as an important step in the formulation of the new OECD Jobs Strategy, the advantages of involving the social partners to increase the labour market's ability to handle change are highlighted.

Job Security Councils is somewhat of a misnomer as it could be interpreted as institutions providing employees with security in their current job. Instead, the councils are tasked with facilitating the transition to the next job for employees that are laid off. Below, the term *employment security councils* will be used.

The employment security councils are set up by the social partners under the so called *transition agreements* to administer and deliver services to employees that have been dismissed for economic reasons. These are free from any state involvement: they are set up by the social partners through collective agreements, financed through contributions, and without state involvement or regulation of their activities.

The aim of this paper is twofold. Firstly, it will describe the foundation, funding, and activities of the employment security councils. Secondly, it will explain and analyse how the councils are conditioned on sectoral level collective bargaining, semi-mandatory labour law and employment protection legislation that is at the same time strong and flexible enough to provide trade unions with sufficient leverage. The last is a fact too often neglected also in the domestic Swedish discussion.

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² OECD (2017) Employment Outlook 2017, p. 12.

The argument will be made that the transition agreements and employment security councils are an example of the role employment protection can play in promoting resilience in the labour market.

Despite the transition agreements and the employment security councils not being a new phenomenon and often praised as an important contribution to the well-functioning of the Swedish labour market, there has so far been very little research on them. The most important work is Sebardt's 2005 legal analysis of the transition agreements, written in English.³ The same year, the *Institute for Evaluation of Labour Market and Education Policy* (IFAU) published a mainly descriptive report.⁴ The transition agreements have also been the subject of a government committee of inquiry, resulting in a white paper.⁵

2. The Labour Law and Industrial Relations Context

To properly understand the *employment security councils* it is necessary to be aware of the labour law and industrial relations context they exist in. From a comparative perspective, Sweden stands out in a number of ways.

2.1 High degree of organisation and collective bargaining coverage

Sweden is one of the countries with the highest degree of collective bargaining coverage, despite not having any mechanism for making collective agreements generally applicable (*erga omnes*). According to statistics from the National Mediation Office, in 2015, 90 per cent of all employees were covered by a collective agreement – 100 per cent in the public sector and 85 per cent in the private sector.⁶ The high coverage is due to high organisational rates both on the side of the employees and on the side of the employers. In 2015, the unionisation rate was 69 per cent. From a comparative perspective, the high unionisation rates among white collar employees and among employees of SMEs stand out.⁷ On the employers' side, the organisation rate in the private sector, calculated as the share of all employees working in a company that is a member of an employers' organisation, was 82 per cent. An employer that is a member of an employers' organisation, or that have separately signed a collective agreement, is bound by the collective agreement in relation to all his or her employees.

2.2 Semi-mandatory Labour Law

Large parts of Swedish labour law, in particular in the field of dismissal protection, are semi-mandatory. This means that it is possible for employers and trade unions to agree on derogations from statutory law through collective agreements. In Sweden, these derogation can be used to establish levels of protection that are *lower* than the levels found in statutory law. The requirement is that the collective agreement has been entered into or approved by a trade union federation on the national sectoral level or that a collective agreement on that level applies as regards other issues

³ Sebardt, G (2005) *Redundancy and the Swedish Model – Swedish Collective Agreements on Employment Security in a National and International Context*. Uppsala: Iustus Förlag.

⁴ Martinsson, S (2005) "Omställningsavtalen – Mellan vilka, för vilka och på vilket sätt" *Rapport 2005:15*, Uppsala: IFAU.

⁵ Government White Paper SOU 2002:59 Omställningsavtal: ett aktivare stöd till uppsagda.

⁶ Medlingsinstitutet (2017) *Avtalsrörelsen och lönebildningen 2016*. Stockholm: Medlingsinstitutet, pp.217.

⁷ For an in-depth analysis of the determinants and development of the unionisation rate in Sweden c.f. Kjellberg, A (2011) "Trade Unions and Collective Agreements in a Changing World" in Thörnquist, A & Engstrand, Å-K (eds) *Prekarious Employment in Perspective – Old and New Challenges to Working Conditions in Sweden*. Brussels: PIE Peter Lang.

between the parties.⁸ This makes Swedish labour law particularly flexible. Through collective bargaining, employers and trade unions can adapt employment protection rules to the conditions in each different industry. As they are free to go both above and below statutory levels of protection, more items can be put on the bargaining table and a wider range of solutions are available.

2.3 Dismissal Protection, the Seniority Principle, and Social Protection

In Sweden, as in most other industrialised countries, an employer's dismissal of an employee must be based on *objective grounds*.⁹ A distinction is made between, on the one hand, *dismissals for reasons pertaining to the employee personally* and *dismissals for economic and organisational reasons*. In the latter case, there is no need for the employer to get approval from any authority or court and the employer can unilaterally decide whether there are economic or organisational reasons to lay off one or more employees (after informing and consulting with trade unions). The employer does not however, have full freedom to decide which employees are going to be dismissed. According to Section 22 of the Employment Protection Act, in the event of dismissals for economic and organisational reasons and when there is a need to establish who has priority for the jobs that remain "employees with longer employment times shall have priority over employees with shorter employment times. In the event of equal employment times, priority shall be given to the older employee." This is commonly referred to as the principle of "last-in-first-out".

In Sweden, there is no statutory severance pay and employers that dismiss employees are not required to have a social plan. An employer that follows the statutory provisions, including the seniority principle, can thus lay off workers without any additional costs.

The seniority principle in Section 22 is, however, semi-mandatory which in this case means that employers and trade unions on the workplace level are allowed to negotiate and agree on a different order of priority than the one described in Section 22, and frequently do so.¹⁰ This is attractive for employers that wish to exercise a greater influence over which employees to keep and which to dismiss. Unions may agree to this in order to allow the company to keep key personnel, but will also ask for something in return, for example a better deal for the employees that are laid off. There are also many examples where employers and trade unions negotiate packages in the form of extended notice periods, economic compensation and other benefits which are then given as an offer to employees that quit voluntarily.

3. The Employment Security Councils

The foundation of the *employment security councils* (Swedish: *trygghetsråden*) are the *collective agreements on transition* (Swedish: *omställningsavtal*) signed between employers' organisations and trade unions on the sectoral or cross-sectoral level. Through the collective agreements on transition, employees who have been dismissed due to economic or organisational reasons are given additional benefits, for example economic compensation and the possibility to receive certain services aimed at helping them to find a new job or start their own business. The agreements also regulate the process of dismissal and the selection of employees that are to be laid off.

⁸ *Employment Protection Act (SFS 1982:80), Section 2.*

⁹ *Employment Protection Act (SFS 1982:80), Section 7.*

¹⁰ C.f. Calleman (1999) *Turordning vid uppsägning*. Umeå: Umeå universitet.

Collective agreements on transition first appeared in the 1970s for white collar workers. They have since become more and more common through an expansion to new categories in the 1990s and to virtually all of the labour market in the past decade.¹¹

The legal form most commonly used for the employment security councils is that of *collective agreement foundation*.¹² Compared to other foundations, the collective agreement foundations distinguish themselves in a number of ways. It is easier to change the bylaws, do not need to have assets at the time of creation¹³, and are only taxed for income derived from real estate.¹⁴

The employment security councils are financed by contributions from all employers that are covered by the relevant transition agreement. The contributions are calculated as a percentage of the employer's wage sum. These contributions should not be confused with statutory employers' contributions which are paid to the state. Instead, it is the social partners that have agreed on the contribution and the duty to pay them comes from the collective agreement. Further, even though it is the employers that pay the contributions it would not be correct to describe it as the employment security councils being financed by the employers alone. As at least some of the percentage set aside for financing the councils comes from the economic space otherwise allotted for wage increases, a more correct description would be to say that they are financed jointly by employers and employees.

4. Three Examples of Employment Security Councils

4.1 TRR Trygghetsrådet

*TRR Trygghetsrådet*¹⁵ is the most established and well known of the employment security councils. It is based on an agreement between the *Confederation of Swedish Enterprise (SN)* and the *Councils for Negotiations and Co-operation (PTK)*¹⁶ which is comprised of 26 private sector trade union federations organising 850 000 white collar employees. The current transition agreement between SN and PTK is from 1997 but it has roots in the 1970s.

The parties have designated the collective agreements foundations *TRR Trygghetsrådet* as the entity that is to provide the services defined in the agreement.¹⁷ The agreement regulates the composition of the board of TRR, which is to be comprised by six representatives of the employers and six from the trade unions.¹⁸

The contributions are set to 0.30 per cent of the employer's wage sum.¹⁹ Employers that have reached an agreement with the trade unions on the workplace level to instead of the services of the TRR use their own staff to help dismissed employees found a new job can opt-out of parts of the

¹¹ For an account of the development of the transition agreements and the employment security councils c.f. Sebardt (2005) pp.130 ff.

¹² *Act on Foundations (SFS 1994:1220) Chapter 11, Section 3.*

¹³ *Act on Foundations (SFS 1994:1220) Chapter 11, Section 4.*

¹⁴ *Income Taxation Act (SFS 1999:129) Chapter 7, Section 15.*

¹⁵ Website: <http://www.trr.se/> [Accessed September 26, 2017].

¹⁶ PTK is not a trade union confederation but an organisation for trade union federations from the two white collar confederations TCO and Saco for co-operation in matters regarding the conclusion of collective agreements and the management of benefits accrued through these agreements e.g. supplementary pensions, insurances and transition support. Website: <http://www.ptk.se/om-ptk/> [Accessed September 26, 2017].

¹⁷ *Record of negotiations 1997-12-18, Section 3.*

¹⁸ *Transition agreement SN-PTK, Section 4.*

¹⁹ *Record of negotiations 1997-12-18, Section 7.*

agreement and pay a lower fee of 0.18 per cent. Companies that are not members of an employers' organisation can opt in at a higher fee 0.70 per cent of the wage sum.

TRR is a collective agreement foundation founded in 1974. 32 000 companies with a total of 700 000 employees are connected to TRR. Its turnover is about one billion SEK/year (approx. 110 million EUR) and it has 230 employees in 40 offices throughout Sweden.²⁰

TRR offer services to employers, trade unions and redundant employees. Employers are given advice on how to handle dismissals. For trade unions, TRR provide training on how to handle dismissals and advice in case of dismissals. Most important, however, are the services offered to individual employees who have become redundant. Apart from economic benefits (below) redundant employees get a personal advisor and the TRR staff makes an assessment of the individual's position in the labour market and help them find a new job, often through TRR's own network of connected employers, a practice often referred to as outplacement. Redundant employees can also receive help in starting their own business, which between 5 and 10 per cent of TRR clients do.²¹

The transition agreement SN-PTK gives dismissed employees the right to economic benefits on the condition that the employee:²²

- has been dismissed due to economic or organisational reasons;
- is at least 40 years of age and has worked more than 5 years with the same employers for at least 5 hours/week;
- becomes unemployed when the employment ends (i.e. have not already found a new job);
- is registered at the Public Employment Service and actively looking for work;
- had a prior monthly wage of at least 21 100 SEK (approx. 2200 EUR).

If these conditions are fulfilled, the dismissed employee receives a benefit that tops up the voluntary state unemployment insurance to give 70 per cent of the employee's former salary for six months. If the employee is 45-59 years of age, he or she can receive an additional 6 months with 50 per cent of their former salary, and if 60-65 years of ages an additional 12 months with 50 per cent of the former salary. The construction of the benefit explains the last of the eligibility criteria mentioned above. Employees with prior earnings of less than 21 100 SEK/month already receive 70 per cent of their prior earnings, at least if they are members of an unemployment insurance association.

The eligibility criteria for receiving transition services are different from the ones for economic benefits. To receive transition services the employee must:²³

- have been dismissed due to economic or organisational reasons, or have left without being dismissed if it is clear that it was on the employer's initiative and due to redundancies;
- has worked at least 16 hours/week for at least one year.

The second possibility to fulfil the first criteria is aimed at situations where the employer offers workers to leave their jobs voluntary in exchange for various benefits (above 2.3).

²⁰ <https://www.trr.se/en/about-trr/> [Accessed November 30, 2017].

²¹ The information about the services of the TRR are taken from the TRR website <http://www.trr.se/> [Accessed November 30, 2017].

²² *Transition Agreement SN-PTK, Sections 7-8.*

²³ *Transition Agreement SN-PTK, Section 12.*

If these criteria are fulfilled, the employee can enjoy the services of the TRR. There is also a possibility for the company, after an agreement with the trade unions, to receive a lump sum from TRR to organise services for redundant employees or to buy the services from another provider than TRR.²⁴

An important provision, which is crucial for understanding the employers' interest in the transition agreement, is found in *Sub-annex A* of the agreement. According to the annex, employers and trade unions on the work place level, when negotiating redundancies, should take into consideration the company's needs for the continued staffing of the organisation. The selection of employees to be made redundant should be made with the company's need to keep competent staff and retain competitiveness in mind. If these cannot be met under the statutory last-in-first-out principle, the parties should agree on a different order of selection. If no agreement can be reached on the workplace level, the organisations on the central level can step in to solve the situation according to the guidelines of the annex. The annex does not constitute a legal obligation on the parties to reach an agreement that deviates from the last-in-first-out principle but is nevertheless considered to be a rather strong directive to do so.

4.2 Trygghetsfonden TSL

Trygghetsfonden TSL is based on a collective agreement between the Swedish Confederation of Enterprise (SN) and the blue-collar trade union confederation LO. It was signed in 2004 as a "contributions based transition insurance" (prior to that there was a collective agreed severance pay). The agreement covers 900 000 employees in 100 000 companies the private sector and sets up the *Collective Agreement Foundation Trygghetsfonden TSL*. As in the case of TRR, contributions are 0.30 per cent of the employer's wage sum and the board of TSL made up of six employers' representatives and six representatives from the trade unions.

The economic benefits part of the SN-LO transition agreement is handled by a labour market insurance company, *Afa*, owned jointly by the social partners. To be eligible, the redundant employee must:²⁵

- have had an indefinite term contract;
- been dismissed for economic and organisational reasons;
- be between 40 and 65 years of age;
- have been employed for at least 50 months during a five-year period at one or several companies that have taken out the insurance.

Also employees who have been dismissed but who keep working for the same company or group of companies part-time (or less hours if they worked part-time prior to being dismissed) are eligible. Employees who are hired back at the same company or group of companies within three months are, however, not eligible for benefits.

The benefit is a lump sum that varies between 33 850 and 49 250 SEK (3350-4900 EUR) depending on age and working time. There is no requirement that the employee has become unemployed however, why dismissed employees who manage to find a new job can still receive the lump sum.

²⁴ *Transition Agreement SN-PTK, Section 13.*

²⁵ The information is taken from the Afa website <http://www.afaforsakring.se/Forsakringar/Forsakring-vid-arbetsbrist/> [Accessed 1 October, 2017].

In order to be eligible for transition services from TSL, the employee must fulfil the following conditions:²⁶

- has had an indefinite term contract at the time of dismissal and been dismissed for economic or organisational reasons;
- has been employed continuously for at least 12 months and worked at least 16 hours per week;
- has the intention to follow the entire transition program until he or she gets a new job or start their own business.

Unlike the TRR, the TSL does not provide any services itself. Instead, TSL reimburses the cost of services up to 22 000 SEK (approx. 2200 EUR) per redundant employee that the company buys from other transition service providers listed by TSL (among them TRR). The stated aim of TSL is that at least 75 per cent of the participants should find a new job before they leave their transition program, a goal that it regularly fulfils.²⁷

Like in the case of the SN-PTK transition agreement, the SN-LO agreement setting up TSL contains a requirement that employers and trade unions on the work place level negotiate redundancies with the aim of reaching agreements that satisfies the company's need to keep competent staff and retain competitiveness.²⁸ A difference is however, that the SN-LO agreement contains a provision which disqualifies employees that challenge the validity of their dismissal from transition support.²⁹

4.3 Omställningsfonden

The latest major addition to the employment security councils is *Omställningsfonden* which covers the municipal sector. The parties to the underlying transition agreement, *Omställningsavtalet KOM-KL*, which was signed in 2010 and entered into force January 1, 2012, are, on the employers' side the *Swedish Association of Local Authorities and Regions* and *PACTA*, which is an employers' organisation mainly for enterprises owned by municipalities and, on the union side, *Kommunal* (blue collar municipal workers union) and *OFR* (public sector equivalent to PTK comprised of 15 white collar trade unions with members in the public sector) and *AkademikerAlliansen* (comprised of 16 smaller white collar unions from the Saco confederation). In total, it covers 1.1 million employees in municipalities and regions and companies owned by these.³⁰

Compared to the other two major transition agreements, the contributions of 0.1 per cent of the wage sum is lower. This is explained by the fact that employers that have taxation rights (i.e. municipalities and regions) pay economic benefits to the dismissed employees directly. Companies owned by municipalities and the various organs for co-operation between different municipalities and regions pay an additional 0.2 per cent. Further, employers that signs work place level collective agreement on active transition can apply to have their contributions reduced.

The conditions for eligibility look somewhat different compared to TRR and TSL. Eligible for economic benefits and for the services offered by *Omställningsfonden* are employees with an indefinite term

²⁶ *Transition Agreement SN-LO, Annex 2, Sections 2-3.*

²⁷ https://www.tsl.se/globalassets/statistik/statistik-2017/augusti-2017/resultat_totalt_aug2017.pdf

[Accessed 1 October, 2017]

²⁸ *Transition Agreement SN-LO, Annex 2, Sections 9.*

²⁹ *Transition Agreement SN-LO, Annex 2, Sections 3.*

³⁰ <http://omstallningsfonden.se/om-oss/> [Accessed 1 October, 2017].

contract who has worked at least 40 per cent of full time for at least 12 months that are dismissed for economic or organisational reasons, or who are have been on a list of potential redundancies and resigned after an agreement with the employer. The 12 month employment period includes time from fixed-term contracts if the periods between the contracts have been no longer than 7 days.

Also the economic benefits have a somewhat different construction. The employee has the right, before the end of the notice period, to take part in transition activities while retaining their salary. If it is not possible to take part in transition activities during this period, 30 days pay can be received after end of notice period. The former employee has the right, after the end of his or her contact, to receive a *special transition benefit* while taking part in transition activities for up to 60 days during a 180 day period (paid when the person cannot receive unemployment benefit due to not being considered to be actively looking for work when participating in transition activities).

A person who has been employed for more than 5 years at the time of dismissal has the right to receive supplementary transition benefit on top of regular unemployment insurance in order to receive 80 per cent of their former salary the first 200 days of unemployment and 70 per cent for an additional 100 days. Like TRR, *Omställningsfonden* has advisors that help employees that have become or will become redundant to make assessments of their chances in their labour market and to find a new job.

5. Results and Role in an Active Labour Market Policy Context

All employment security councils report high rates of transition to work. According to TRR, in 2016, 88 per cent of redundant employees that made use of TRR services found a new job.³¹ The figures for TSL are slightly lower, around 80 percent³². Part of that difference is likely accredited to the fact that TRR clients are white collar workers and better educated than the blue collar clients of TSL. For *Omställningsfonden*, which due to the small number of layoffs in the municipal sector handled very few cases in 2016, 77 percent of clients found a new job.³³ This is a lower figure than earlier years, which *Omställningsfonden* partly attributes to an increasing share of clients having ill-health.

One should nonetheless be careful when comparing these results with those of the public employment service. One reason is that the clients have very different characteristics. The clients of the employment security councils are people who are established in the labour market (having held an indefinite term contract for at least one year), while the unemployed that are registered with the Swedish public employment service include and are dominated by people who have not established themselves in the labour market such as young people without secondary education and newly arrived immigrants.

Another difference between the employment security councils and the public employment service is that the employment security councils can intervene early, often already before the notice period has expired, in a way that is not possible for the public employment service. Being private entities, the employment security councils also have margin of appreciation when devising and targeting

³¹ <https://www.trr.se/om-trr/press/pressmeddelanden/2016-basta-arbetsmarknaden-sedan-finanskrisen/> [Accessed 1 October, 2017]

³² <https://tslse-media.azureedge.net/d6025ae38ed14d57b2e90195fac2d6bf/6cdae453c1834e5aafe2be00a4fc90a9.pdf> [Accessed 28 November, 2017].

³³ <http://omstallningsfonden.se/om-oss/statistik/> [Accessed 28 November, 2017].

measures for job seekers that a public body or a private company working on behalf of a public body can never have.

Due to their relatively strong position in the labour market, many of the clients of the employment security councils would be given low priority by the public employment service as the latter is instructed to give priority to job seekers who are perceived as having a high risk to become long term unemployed. Without the employment security councils, they would largely be left to their own devices until they were approaching long term unemployment.

A subject that has so far received little attention is the way that the transition agreements fill gaps left in traditional government run active labour market policies. Apart from providing services that the public employment service would not provide, or at least wait much longer to offer, the transition agreements also top up the unemployment insurance, which due to its low benefit ceiling in many cases only cover 50-60 percent of the prior wage. Through the cash benefits of the transition agreements laid off workers receive 70-80 percent of their former salary.

6. Conclusions

The nature of the Swedish employment security councils as pure bilateral bodies without any kind of state involvement make them both robust – in the sense that they are unaffected by political shifts or the state of the public finances.

Among the social partners, both employers and trade unions have expressed a desire to develop the transition agreements further. In 2012-2013, the Swedish Confederation of Enterprise and PTK entered into negotiations about a revision of their transition agreement. From the employers' side, the negotiations were portrayed as being about modifying the last-in-first-out principle, while trade unions emphasised the improved transition agreement aspect of the negotiations. Issues on the table were individual competence being given increased weight for selection of redundant employees in case of collective dismissals, right to skills development during employment, and the inclusion on employees on fixed-term contracts. The negotiations were never concluded, but new attempts are expected in the coming years.

A potential threat to the transition agreements is that the very provision of labour law that is the linchpin of the entire system, the last-in-first-out-principle in Section 22 of the Employment Protection Act, also happens to be one of the most politically sensitive pieces of legislation in the Swedish labour market. Employers' organisations and centre-right politicians have long campaigned to abolish or modify this principle. The apparent risk, if the last-in-first-out-principle is abolished or modified, is that the transition agreements will not be developed further and eventually terminated. If the legislator would give employers the power to freely select which employees to keep and which to lay off, trade unions would lose most of the leverage that makes the transition councils possible.

This is a point that also the OECD should consider. Currently, the organisation is on the one hand praising the employment security councils (Employment Outlook 2017) and on the other hand describing Swedish employment protection legislation "with heavy notification procedures in case of dismissal" and "stringent regulation of the order of layoffs in case of redundancy" as problematic (Economic Survey of Sweden 2016).

Are the employment security councils exportable?

The example of the transition agreements and employment security councils demonstrates that there is a role for labour law in fostering labour market adaptability and resilience that should be explored further, preferably in a comparative context. Of particular interest is how labour law can help create conditions that allow for constructive dialogue between employers and trade unions with the aim of both securing the continued operation and development of the company and a smooth and successful transition to new jobs for the employees that are laid-off?

Institutions such as the employment security councils, financed through contributions from employers, could also be a way to spread the cost and risk of current social plan or severance pay requirements in case of collective dismissals over the collective of employers and employees, and thus avoid excessive costs for an individual company that needs to restructure.

It is easy to jump to the conclusion that the transition agreements and employment security councils are the rare fruits of a very particular legal and industrial relations context, making it an example of little value for other countries. It is certainly true that Sweden has a comparatively high collective bargaining coverage and unionisation rate, but if we deconstruct the necessary conditions for the conclusions of transition agreements, we find that these are present not just in Sweden or the other Nordic countries, but in many OECD-countries.

The necessary conditions for the conclusions of transition agreements are:

- *Sufficient trade union leverage to engage in win-win bargaining*
As explained above, the transition agreements would not have come about if the employers had already had power to decide who would be laid off in cases of collective dismissals. In order for employers to be interested in paying the necessary premiums, the trade unions must have something to offer them in return (and the legal possibility to make that form of derogations). Fairly strict conditions for collective dismissals to fall back on if negotiations fail gives trade unions leverage to bargain a good enough deal to satisfy sufficiently large share of members or affected workers to make the deal politically possible.
- *Reasonably strong social partners on both the workplace level and the sectoral level*
The transition agreements are built on an interplay between negotiations on the sectoral and the workplace level. Strength at the *sectoral level* is necessary because the transition agreements function as an insurance system, and requires a sufficiently large pool of employers to share the costs and to make sure that the employment security councils can have continuous operations also in times of few layoffs. Strength at the *workplace level* is necessary as that is where the bargaining pertaining to the actual dismissals will have to take place.

Apart from this there are other conditions that albeit not necessary can facilitate the conclusion of transition agreements and the institutions of employment security councils. As described above, the economic benefits top-up the regular unemployment insurance system. The more generous this regular unemployment insurance is, the lower the costs for the employment security councils.

While there are good arguments for a system that is fully financed by the social partners, state involvement in financing should not be excluded. Governments could for example, help finance the initial set up of transition agreements and employment security councils and then gradually

withdraw. Another possibility would be to offer employers that conclude transition agreements lower pay-roll taxes.