



Economic incentives to create better workplaces



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Health and safety at work is a topic in labour economics and policy making that has been important for a long time. According to a definition by the WHO, health is not merely the absence of disease or infirmity but a state of complete physical, mental and social well-being. Therefore, good workplaces cannot merely be characterized by the prevention of accidents and diseases, but should be defined by a health-, competence- and skills-enhancing atmosphere throughout the employees' working lives.

This suggests that workplace quality covers a broad range of topics. The responsibility for a health- and skill-oriented workplace lies mainly, but not exclusively, on the labour demand side—employers have a key role to play in preventing accidents and health problems at work. A good occupational environment encourages continuous, possibly outstanding, performance and innovation of employees, thereby raising firm competitiveness. Bad working conditions, however, cause the wearing down of the workforce and thus can endanger the company's long term perspectives, possibly creating negative external effects likely left for the public to pay.

In the case of occupational accidents and illnesses, it is usually the responsibility of social insurance to pay for the expenses. Also, and in a similar vein, if a company does not invest in further education and training of their employees, it not only harms itself by not tapping the full potential of their employees but also evokes external costs since the individual risk of unemployment increases and might put the burden of the cost on social insurance.

Could external economic incentives as a policy instrument promote health and skill investments by employers? Taking into account the complexity of the relationship between health and the workplace, which design would be most effective?

Policy framework

Of course, economic incentives alone cannot sustain and enhance employability, they rather need to be part of a comprehensive approach consisting of mainly three domains.

The first pillar is to **establish challenging workplace standards and ensure proper enforcement**. Despite significant variation between EU member states, the overall number of occupational accidents has been decreasing

in most developed countries in recent years. This can be attributed to many reasons, amongst others, to policies that have successfully prevented physical hazards at work. In the context of workplace standards and controls, particular attention must now be paid to psychosocial hazards. These risks are more characteristic of a post-industrial, highly flexible and performance-driven economy. 'Psychosocial risks at work' refer to the likelihood that certain aspects of work design—the organization and management of work and their social contexts—may lead to negative physical, psychological and social outcomes.

In 2010 within the scope of the *5th European Survey on Working Conditions (ESWC)*, 25% of workers reported that they experience work-related stress for at least most of their working time. A similar proportion claimed that work affected their health negatively.¹ The *6th ESWC* reveals that a significant share of workers in Europe is exposed to very high levels of work intensity. Figure 1 shows two aspects of excessive work intensity in European countries most associated with psychosocial risks. As seen in Figure 1, in nearly all EU-15 countries, at least one-fifth of workers report in 2015 that their job involves working at very high speed and to tight deadlines almost all of the time.

But even the most ambitious and progressive regulations to promote better workplaces only work out in combination with reliable and regular monitoring and enforcement. This is particularly challenging with regard to psychosocial hazards at work. In Germany for example, psychological strains have been part of the statutory risk assessment in every company since 2013. But, because an objective identification of respective risk factors is impossible and the legislation does not articulate details, the employer's scope is wide.

In addition, factors of psychosocial risks are highly sensitive to the individual and the context; for example, psychosocial hazards are not always necessarily related to negative health outcomes. Rather, it depends on the individual employee, the industry sector and the type of contract (job insecurity is, for example, related to some negative health outcomes). Therefore, further guidelines, technical assistance and monitoring to enhance working conditions are essential.

A cultural change and the awareness of the relevance and long term benefits of sustainable working conditions cannot

be realized by regulation and enforcement alone. Thus, a second pillar is needed: **campaigns to raise awareness**. This means, for example, awarding companies that have developed innovative methods to promote mental health or offer effective training. By providing this information, the as of yet unconvinced employers can in principle be reached.

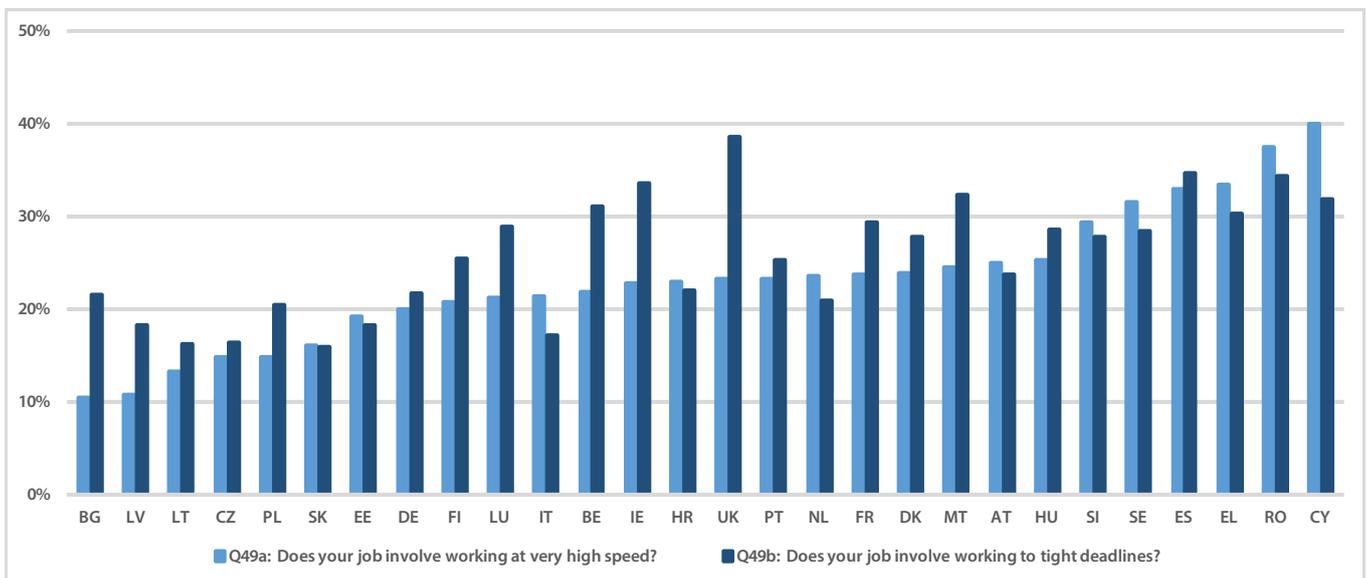
The third domain of the policy framework consists of administering **economic (dis)incentives** that pass on extra costs to employers that invest too little or none at all in the worker's employability. Technically, to promote preventative measures, economic incentives could reward companies that invest in the health and skills of their employees and punish companies that do not. There are several approaches to set incentives, for example, taxes, subsidies or a bonus-malus system for social security contributions.

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How to measure improvements?

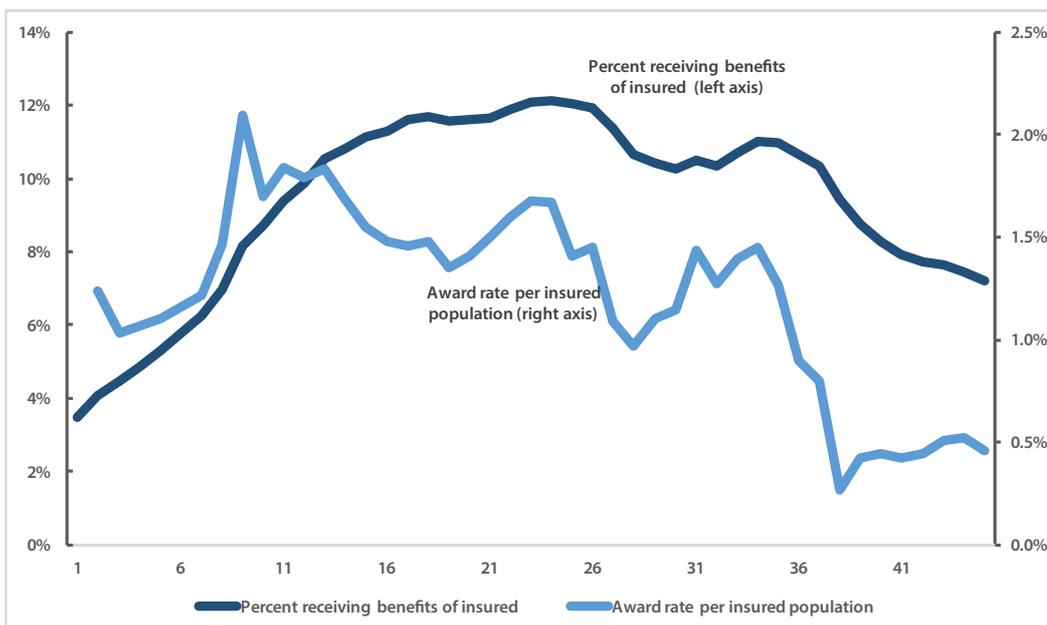
For economic incentives to be effective, the intended prevention activity of the enterprise should directly influence the expected reward. To evaluate intended effects within companies, it needs to be clarified which measurements are most suitable. Input and output criteria, therefore, come into consideration.

Figure 1. Work intensity: working at very high speed and working to tight deadlines almost all of the time



Source: Eurofound, Sixth European Working Conditions Survey 2015

Figure 2. Disability Insurance award and enrolment rate per insured worker in the Netherlands, 1968-2012



Source: Koning und Lindeboom, 2015



Input parameters include in-plant interventions, processes and expenses that can be shown to drive employability—for example, an improvement of work organization, possibly with the collaboration of work councils. The input-based measurement requires consensus about the indicators to be measured and an evaluation at the company level.

Output parameters provide a larger range of choices on how to improve workplace conditions and can be evaluated more easily (for instance, absence due to mental illness or inflow in disability insurance). Yet, besides the challenge of establishing the direct link between employer behaviour and outcomes,

output criteria pose a challenge since data on social insurance systems cannot be readily used due to the need to preserve privacy and challenges in conducting direct comparisons among employers.

A short review of already existent incentive schemes

1. Unemployment insurance in the USA

The most well-known example is the 'experience rating' in the unemployment insurance system in the US (UI henceforth), that is, pricing premia that are based on the group or individual's history of claims. The US UI scheme captures the effects of experience rating because it penalizes layoffs and

thereby enables the allocation of costs to those employers deemed 'accountable,' at least for the most part.

The basic structure is as follows: each firm pays a payroll tax on its current wage bill. For each employee, the firm pays a tax on a capped base salary determined by each state. The layoff cost is priced in when a firm lays off a worker and the employer is, according to the experience rating method, assessed a higher tax rate in the future. Thereby, the experience rating reduces firm's incentive to hire and fire.

Moreover, economic incentives set by experience based premia have also been established in some social insurance designs of European countries and also provide some valuable insights.

2. Statutory accident insurance in Finland and in Germany

In Finland and Germany the statutory accident insurance (AI henceforth) is part of the social insurance system that covers all employees and both occupational accidents and diseases at a relatively high rate of compensation.

The Finnish AI is entirely financed on the basis of premia paid by the employer. The insurance companies are allowed to calculate the premia with their own schemes (generally based on statistics collected over a five-year period), with up to a certain degree defined by law. The premia must be proportional to the insurance costs: specific accident risks have to be taken into account, and in certain cases individual accident rates have to be considered.

In Finland, SMEs pay insurance rates based on the size of the company and the 'risk per mill,' the pooled collective risk of the branch, whereas for large companies special rates are applied. The level of the premium is experience-based according to the accident rate of the company itself. Especially for larger firms, it pays to invest in preventive measures to improve their overall occupational safety.

In the German occupational AI, prevention is also regarded as an essential task of the several AI companies, and this is then reflected in the design of the premium. In Germany every company, regardless of their size, is placed in a hazard group, and each hazard group is subsequently assigned to certain rate brackets. Within the bracket, the sum of wages determines the insurance premium. The actual incentive for preventive care is set by reductions or additional charges depending on the number and severity of a company's accidents in relation to the average in the relevant hazard group.²

3. Disability insurance in the Netherlands

The Netherlands and Finland are the only countries with experience ratings for public disability insurance (DI henceforth) benefits. In the Netherlands, the number of workers receiving DI benefits dramatically increased between the late 1960s and the early 1990s (compare Figure 2, which displays DI stock and DI inflow). After DI enrollment peaked at 12 percent of the labour force, the Dutch government extensively reformed the DI scheme to reduce the number of beneficiaries.

The old system was unique in terms of generosity and accessibility and therefore often abused as an alternative pathway into unemployment. In the course of structural reforms, the responsibility of firms was gradually increased: experience rating was introduced in the late 1990s, and the new DI scheme WIA (Work and Income according to Labour Capacity Act) came into force in 2006. Hence, the reformed Dutch design provides an interesting setting, especially with respect to the evaluation of economic incentives.

The experience rated DI premium for Dutch firms is based on the individual disability risk, which itself depends on the disability costs of firms as well as on the insured wage costs, both registered with a delay of two years. The experience rated design has significantly reduced the number of DI claims and increases the firm's awareness of costs that are incurred by occupational disability.

But even the Dutch system provides a loophole: DI benefits in the case of temporary and flexible workers are financed instead by collective funds. This is especially problematic since, in order to be effective, most prevention investments in the workplace need to be designed on a long-term basis.

What makes economic incentives challenging?

As mentioned above, psychosocial risks have gained much attention in the context of a highly flexible and performance-driven work environment that depends on employability and performance. These hazards are particularly challenging to assess due to the fact that the exposure to work-related psychosocial risks highly depends on the organizational culture as well as on the worker's perspective. Beyond the legal requirements, however, one foundational aspect in promoting health and safety at work—and/or continuous skill adaptation—is providing effective economic incentives.

This can most clearly be shown in the design of the current Dutch disability insurance system, which, by basing the premium on the individual disability risk, puts much emphasis on employer's incentives to invest in the health and safety of their workers. On the other hand, these incentives for employers also bear the risk of unintended side effects. Human resource practitioners might focus on hiring (probably especially young) workers with discernibly good health conditions or skill profiles, potentially opening the door to the risk of discrimination.

Finally, any investment in a health- and skill-enhancing environment pays off primarily over a long period. Thus, incentives need to be geared towards long-term profitability. Overall, linking economic incentives with social insurance is justified since the effects of bad working conditions are potentially externalized. Therefore, connecting employer's investments in the workplace, or some long-term oriented output criteria, to a related branch of social insurance via an experience rate premium design could be considered as a possible solution. Nevertheless, concrete policy design issues to implement these plans still need to be discussed and debated very carefully. ■

1. (Eurofound, 2014)

2. (EU-OSHA, 2010 and DVUV, 2016)