



## **Activation of labour market support – social guarantee for the long-term unemployed**

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**Summary of the report of the working group set by the Ministry of Labour. The report is included in the governmental employment programme.**

### **I STARTING POINT OF THE REFORM**

The two main problems in the labour market are, how to secure

- the labour needs of the future labour market and
- the employability of the unemployed in tasks opening in the labour market during the change of generation.

By the year 2015, there will be an exit of about one million employees from the labour market, and this exit will be bigger than the labour entering the labour market. It is necessary that unemployed jobseekers more often than now place themselves in the open labour market.

Towards the end of 2004, long-term unemployment began to increase again, and the number of those difficult to employ is still high, about 170 000 persons. The influx to one-period long-term unemployment is 60 000 persons a year. It has not been possible by active labour and social-policy reforms sufficiently to increase active job seeking and the employability of unemployed persons. Although it was possible to reduce long-term unemployment swiftly at the end of the 1990's, the flow to prolonged unemployment has continued also during the years of strong economic growth and improving employment after the recession.

The reform of the labour market support is in a direct connection with the governmental employment targets. The target of increasing the working places by 100 000 in the government programme of Matti Vanhanen, and the employment rate of 75 per cent in the long run, require structural changes in the labour market in addition to economic growth. If a considerable part of the working-age labour force is permanently driven outside the labour market, there will be obstacles to the growth of economy and employment. For this reason, there is need of additional measures by which unemployed persons from the group of structural unemployment will be employed in the open labour market.

The labour market support came into force in 1994. It was meant as an active measure by which the livelihood of recipients of the support is secured during the period of active measures. Almost half of the unemployed, i.e. 136 000, are recipients of labour market support at present. Since the corresponding period in 1994, the number of unemployed receiving unemployment allowance has dropped from 330 000 to 120 000. The risk group of recipients of labour market support threatened with long-term unemployment includes almost 100 000 unemployed. The expenditure of the labour market support is almost 995 million euro. Of this, 300 million euro is spent as active support. The activation rate of the labour market support is 26%.

As the system of labour market support has been in force for about 10 years, over half of the recipients have received the support for so long that in practice it has become part of the ultimate social security, which is contrary to the original purpose of the labour market support, defined in legislation. As it is now, the system of labour market support does not serve its original purpose as effective active support.

The operation of the labour market support as a system encouraging to activation and supporting employment has a central role, when the objective is to increase the employment rate in accordance with the objectives of the government, secure future labour needs and reduce the high unemployment. The government programme requires the preparation of a model, where labour market support demands compensation, as well as preparation by which it will be possible to reform the system of financing the basic security related to unemployment.

## **II MAIN OBJECTIVES AND CENTRAL PROPOSALS OF THE REFORM**

The proposals for the reform of the labour market support, made by the working group, back up the government objectives of increasing the employment rate and reducing unemployment. The proposals improve the system of benefits during the unemployment spell as well as the entity of the active labour-policy programmes. The objective is a more efficient, more encouraging and more balanced entity of subsistence benefits and active programmes. For reaching the objective, the working group suggests that

1. The labour market support is changed so as to demand compensation after a certain unemployment spell
2. A social guarantee is launched for the long-term unemployed
3. The basic services of the employment offices are enhanced in order to stop the flow to prolonged unemployment
4. The governmental and municipal responsibilities are changed in the financing of the benefit systems during the unemployment period so that the financing spurs more efficient activities in compliance with the employment targets. The change is realized in a cost-neutral way between the state and the municipalities.

The suggestions affect both the influx of long-term unemployment and the existing long-term and repeated unemployment. Stopping the influx of long-term unemployment calls for completely different measures compared to those that should be provided for those unemployed who have been without work for a long period already.

### **1. Demanding compensation for labour market support**

The working group suggests that the labour market support demand compensation so that the conditions of getting labour market support as to the sanctions are made more rigid as follows:

- If a person who has drawn labour market support as passive support for 500 days (or if an unemployed drawing daily unemployment allowance has changed over to getting labour market support for 180 days) refuses to participate in a suitable employment-promoting measure provided for him, the right to labour market support is revoked so far

- A person who so far has forfeited his right to labour market support would, however, be entitled to be a recipient of labour market support again having participated an employment measure or at work for five months
- Yet, the right to labour market support would continue for over 500 days (180 days) until the activation offer has been made and the activation starts. If a person who has participated in activation remains unemployed after the measure, his right to labour market support continues normally.
- During the period of the measure, the unemployed person receives wage as normally, if he is offered work or subsidized work. Recipients of labour market support in different work try-outs are paid tax-free maintenance allowance in addition to labour market support. Thus, compensation does not mean that the unemployed should participate in measures merely with labour market support.

The proposals require the introduction of a special active period. During the active period, a sufficient package of services and activation measures is arranged for persons covered by labour market support for compensation so that everybody is offered and everybody has an opportunity of participating in activation during the activation period.

Due to the provisions of the Constitution, it is not possible to prescribe any special maximum duration for the labour market support. From the perspective of the fundamental rights, there is, however, no hindrance to setting participation in employment-related measures as a condition, stricter than present conditions, for getting labour market support.

## **2. Active period and social guarantee for the long-term unemployed**

It is suggested that the second characteristic of labour market support for compensation, i.e. a special active period, during which services and employment measures are increased, be arranged as follows:

- For those who have received labour market support for more than 500 days as passive support (those who after the maximum period of daily unemployment allowance have received labour market support for more than 180 days), the active period is implemented so that employment-promoting measures would be arranged during four years for at least two years.
- The activation rate of unemployed persons who have received labour market support for more than 500 days (180 days) is increased from the present 20 per cent level to 30 per cent. The average number of unemployed covered by the activation would increase in this group from an average of 20 000 to 30 000. The proposals have been measured to the effect that active measures can be provided for all the different persons in the target group. If the average duration of the activation is six months, 60 000 different persons could participate in the activation during a year. The costs for increasing the number of employment-promoting measures are 100 million euro, which would be financed as part of a new financing model (item 4).
- The measures will be provided in cooperation between the state and the municipalities, the labour force service centres and other actors.

Active measures would be implemented on a regular basis even after the actual active period. Unemployment continuing, the emphasis is laid on rehabilitative work experience and on other services arranged or supplied by the labour force service centre. For part of the unemployed who have received labour market support for a very long time, the primary measure is likely to be the clarification of pension prerequisites and other measures than those related to the promotion of employment during the active period.

Arranging and increasing the measures during the active period require heavy activities from the labour force service centres and other actors. As all recipients of labour market support are offered and everybody has a possibility to participate in measures promoting their employment, the issue is social guarantee for long-term unemployed.

### **3. Developing the basic services of employment offices for jobseekers**

One of the central objectives of the proposals made by the working group is to prevent the flow to prolonged unemployment. This requires the enhancement of the basic services of the employment offices, such as job-seeking plans, skill mapping, interviews with the jobseekers, and the content and monitoring of the implementation of the plans. By means of the employment services it is possible to reach the risk groups that are threatened with long-term unemployment.

It is suggested that the basic services of the employment offices introduce an estimate of the labour market situation of the unemployed (profilation), which is essentially more accurate than the present one. This estimate would clarify the facilities of the unemployed and the distance to placement on the open labour market. The interviews, job-seeking plan and skill mapping of the customer shall become information, which includes an assessment of the distance of the unemployed in relation to the labour market.

The changes to be made in the conditions of the labour market support require from the employment offices goal-directed and absolutely just activities so that the jobseekers right from the beginning of the job seeking are aware of the conditions, rights and obligations related to labour market support. As part of the service, the unemployed should clearly be told that his or her job seeking is supported by all means, but as unemployment goes on his or her right to the benefit is changed so that it demands compensation, and he or she is required to participate in employment-promoting measures. Thus, the intense, systematic and goal-directed service and measures of the active period make it possible to get a preventive effect on the flow of unemployment as well so that the unemployed participates and is activated on his or her own initiative better right from the beginning of unemployment.

### **4. Developing a financing model between the state and the municipalities**

The working group suggests that the financing responsibility between the municipalities and the state be changed as to the financing of the passive labour market support. At present, the labour market support is wholly financed by the state. The municipality is responsible for the maintenance support, but the state participates in the expenses through the state subsidy system by one third on the average. The financing model suggested by the working group includes the following changes:

- The financing of the labour market support will be divided evenly between the municipalities and the state for those who have received passive support for more than 500 days. For unemployment shorter than this, the passive financing of the labour market support remains with the state in accordance with the present situation.

- As to maintenance support expenses, a proportion is defined which is taken from the state subsidy system. This financing is divided evenly between the municipalities and the state.
- The state is responsible for the costs during the activating period in the same way as at present.
- Municipalities are given compensation for the additional burden caused by changes in the financing responsibility, and to the effect that it on the part of the individual municipality as accurately as possible corresponds to the additional expenses caused by the changed financing.
- The state on its part binds itself to such an employment policy where the resources for increasing the activation rate to the level of the target situation are realized and preserved at the relatively same level.

The suggestions aim to form a more balanced financing structure for the maintenance security of those who have received labour market support as passive support for more than 500 days by dividing the financing responsibility of the passive expenses between the municipalities and the state. The financing solution promotes the equal financial interest of the state and the municipalities to increase employment in a more sustainable way than the present one. The new financing model of the labour market support and the maintenance support creates a strong incentive for increasing the measures of the active period and for enhancing the quality in local cooperation. Shifting the focus from passive support to active support is the central goal for the financing reform.

Overall financing solutions do not put the unemployed under the responsibility of the municipalities, nor solely under that of municipal employment measures. The active measures and their additions are financed and arranged in cooperation between the state, the municipalities and other actors as at present. The solution rewards the municipalities, which promote the activation and employment of the unemployed.

There were 98 000 persons, who had received labour market support for more than 500 days in May 2004. 20 per cent of them were in active measures. In 2003, a total of 716.4 million euro was paid in labour market support for more than 500 days. Of this, 515.3 million euro was paid in passive support (87 400 recipients at a yearly level). The expenses for maintenance support in 2003 amounted to 490 million euro, of which the proportion of non-discretionary support has been estimated at 441 million euro.

A change in the financing jointly with an increase of the activation rate would lead to an increase in the total expenses by 36 million euro. For activation, 100 million euro more would be used than at present. The cost burden of the municipalities would increase in the target situation of 150 million euro, which the state compensates in full to the municipalities.

Since the purpose of the change is to reduce the flow to long-term unemployment, the reform gradually reduces the expenses for the tackling of unemployment. The reduction of the proportion that has received labour market support for more than 500 days by 10 per cent (9 800 persons) would reduce the total expenses from the present level by 39 million euro conservatively estimated. The saving applies to the municipalities as well as the state.

As to the realization of the objectives of the reform of the labour market support, it is essential that the employment opportunities in the low productivity sector of the labour market are increased.