Unemployment and economic security for youth in Nordic countries

From unemployment protection to poverty relief

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Generous unemployment benefits have shielded young people in the Nordic countries from the most problematic consequences of economic inactivity.

Over the last two decades, young people in these countries have to an increasingly extent become excluded from unemployment benefits, leaving them to rely on means tested benefits.

Might lead to increased inequality and have long-term scarring effects.

We look at the development in unemployment protection of young adults in Finland, Norway and Sweden over the last two decades.

More details can be found in:

The notion of the universal Nordic welfare state

- The Nordic countries are members of the same grouping of welfare states.
  - Universal welfare benefits and services.
  - Few targeted programs.
- However:
  - Available welfare services require work force participation:
  - Welfare benefits are only «universal» as long as everyone is employed.
- After the welfare system restructuring that took place during the 1990s:
  - Benefits are now even more dependent on employment history and contributions.
  - It has become more difficult to qualify for some earnings-related benefits.
The Nordic countries in perspective

• Unemployment insurance types:
  – Finland and Sweden have voluntary state-subsidized programs based on membership in an insurance fund (Ghent system).
  – Norway has compulsory comprehensive unemployment insurance.

• **Coverage rates** are 100%* and among the highest in the European Union when measured as number of insured persons in percentage of labour force and eligibility conditions are disregarded.
  – We will be looking at the **pseudo-coverage**, or the proportion unemployed who actually receive unemployment benefits.

Income protection for unemployed in Finland

Three tier system:

- **Voluntary earnings related benefits:**
  - Membership of an unemployment fund for least 8 months.
  - Have worked at least 18 hours per week for at least 8 months during the 28 months preceding the unemployment.
  - Maximum time is 500 work days, after which unemployed can apply for the basic unemployment benefit.

- **Basic benefit:**
  - Same work history requirements as above but for non-members of an unemployment fund (or those who have exceeded the maximum time).
  - Flat-rate and it can be paid for 500 work days.

- **Means tested labour market subsidy:**
  - Unemployed without previous work history (or those who have exceeded basic benefit maximum time).
  - Can be paid for an indefinite period.
Unemployment benefits coverage: Finland

Income protection for unemployed in Norway

One tier system:

- Earnings related benefit
  - Compensation rate approximately 62% of former income.
  - Membership in «unemployment fund» not necessary.
  - At least 50% reduction in working time required.
  - NOK 135,102 (EUR 15,000) income from work last year or a total of NOK 270,207 (30,000) last three years.
  - Duration:
    - 104 weeks if annual income above NOK 180,136 (EUR 20,000).
    - 52 weeks if annual income below NOK 180,136 (EUR 20,000) and higher than NOK 90,068 (EUR 10,000).
Unemployment benefits coverage: Norway

1994: Tightening in requirement for reduction in working hours.

1997: Labour market programmes no longer qualify for UB. Maximum duration reduced.

2003: Minimum income level qualifying for UB increased. Maximum duration reduced for low incomes. Stricter behavioural requirements.
Income protection for unemployed in Sweden

Two tier system:

- Voluntary earnings related
  - Membership in «unemployment fund» required (minimum 12 months).
  - Worked more than 80 hours every month for at least six months.
  - 80% compensation the first 200 days, 70% the next 100 days.
  - Maximum duration 300 days or 450 for unemployed with children.

- Flat basic rate (for the uninsured but qualified).
  - Approximately EUR 42 a day.
  - Must be more than 20 years of age.
Unemployment benefits coverage: Sweden


1997: Compensation rates raised.

2007: Dramatic increase in premiums for unemployment funds. Students no longer qualified for UB. Not possible to extend UB over 300 days. Requirements of previous work experience were increased.
Conclusions

• The notion of universal Nordic welfare states is a myth ripe for modification.
• Unemployed are becoming more dependent on the economic safety provided by means tested benefits.
  – Unemployed under 25 are struck harder than those over 25.
    • In Finland and Sweden a total of 90% of unemployed youth depend on means tested benefits or other sources of support.
    • In Norway the corresponding number is 65%.
• In periods of low unemployment, this might not seem like a big problem.
• Young people’s vulnerability is most conspicuous in periods of high unemployment.
• Might lead to increased poverty in the short run and increased social inequality in the long run.
Unemployment benefits coverage: Finland

1994:
- New means-tested benefit.
- New claims for geographic mobility.
- Tightening of sanctions for job offer refusals.
Unemployment benefits coverage: Norway

1994: Tightening in requirement for reduction in working hours.

1997: Labour market programmes no longer qualify for UB. Maximum duration reduced.

2003: Minimum income level qualifying for UB increased. Maximum duration reduced for low incomes. Stricter behavioural requirements.
Unemployment benefits coverage: Sweden

1997: Compensation rates raised.
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