



The “Activation Model” in the Finnish unemployment protection system

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The “Activation Model” introduced to the Finnish unemployment protection system in 2017 has been in force since 1 January 2018. This model has increased conditionality for both basic unemployment benefits and income-related schemes.

Description

In 2017, the centre-right government of Juha Sipilä introduced the “Activation Model” (AM), which mimics the Danish unemployment insurance system (Kvist, 2015). The AM became effective on 1 January 2018 and will be applied to basic (flat-rate) unemployment benefits (paid by the Social Insurance Institution, Kela) and income-related schemes (paid by unemployment funds).

The aim of the AM is to tighten the conditions for benefit eligibility, in order to encourage activation of the unemployed, reduce the duration of periods in unemployment and increase the employment rate. The AM stipulates that the unemployed person has to meet an “activity condition” (AC) in order to avoid curtailment of his or her benefits (Ministry of Social Affairs and Health, 2018). The AC is met if the unemployed person meets the following criteria within three months of becoming unemployed:

1. Spends 18 hours in paid employment with wages and employment conditions that respect the collective agreement in the industrial sector concerned; these can either be accumulated in one spell or over several spells of employment in different jobs.
2. Earns at least €241 as a self-employed person.
3. Participates in five days of employment-promoting services, training or education at the

employment office (TE-Office). (Unemployment Benefits Act, Sections 6:3a and 7:5a).

If the unemployed person fails to fulfil one of these criteria, his/her benefit is cut by 4.65% for the next three months (65 days). The cut is not cumulative, i.e. if the claimant fails to fulfil the AC for several consecutive 3-month periods, the curtailment will remain 4.65% of the original sum. There is no cut to benefits that already have been cut. The waiting period without payment has been shortened to five days of unemployment, from the previous seven days.

AM experiences have been mixed and no solid evidence of the consequences is available. However, in June 2018 the government presented an “Activation Model 2” (AM2) and sent it out for public consultation in the summer of 2018. Under the AM2 proposal, the unemployed person must apply for at least four jobs a month to avoid sanctions in the form of reduced benefits or unpaid waiting periods (which can be as long as 90 days). The results of the consultation were critical in general, and the trade unions in particular are opposed to AM2. Due to the fierce criticism and the approaching parliamentary elections (to be held in April 2019), the government set up a tripartite working group on AM2 due to deliver its conclusions by the end of February. If the government decides to present these conclusions to the parliament, the decision will be taken after the elections.

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Outlook & commentary

Reactions to the current AM have been highly mixed. Whereas government representatives argue that the AM has been successful in activating the unemployed and reducing unemployment, opponents (which include trade unions, the Social Democrats and the Central Organisation of the Unemployed) have considered the AM a failure and criticised it for being a device to achieve savings in unemployment expenditure. Since the AM was implemented simultaneously over the whole country, and since the economic situation and employment possibilities vary between regions, it is hard to reliably evaluate its real impacts on employment (Yle, 2018a).

The launch of the AM was badly planned, and when it became effective, the Ministry of Social Affairs was not able to provide a proper list of which kinds of activity would be accepted for fulfilment of the AC, and when the benefit would be cut. The half-ready state of this legislation caused confusion, both among the organisations paying out the benefits and among the unemployed (Iltalehti, 2018). TE-Offices have not been able to provide enough courses to satisfy the demand. Therefore, many of those who were willing to participate in TE-courses were not able to do so. They had their benefits cut.

The AM has resulted in cuts in benefits for a substantial number of the unemployed. One third of unemployed people receiving income-related benefits (from unemployment funds) and 40% of those receiving basic benefits from Kela (the Social Insurance

Institution of Finland) have had their benefits reduced (Uusitalo, 2018). The cuts disproportionately affect elderly people and people living in rural areas in the northern and eastern parts of the country. Furthermore, while those already active are still active, the AM has not had much effect on the non-active unemployed.

The stick-and-carrot-based AM has been criticised by the trade unions, the Social Democrats and the Left-Wing League, who have promised to abolish the model if they win in the next elections. In October 2018, the Sipilä government announced that it will start tripartite negotiations to adjust the model (Yle, 2018b). The announcement was a concession to the trade unions, which launched a series of strikes in order to oppose the government's policy. On 28 December 2018, the government issued a decree expanding the scope of service providers. From 1 April 2019, municipalities and trade unions can also organise activities helping people to meet the AC conditions.

However, the trade unions have expressed their dissatisfaction. They consider that the concession by the government is not sufficient: the AM remains too punitive and hits those who, due to age, lack of skills and place of residence, have no realistic possibilities to meet the activation criteria. Decisions on changes to the AM and the implementation of AM2 will most likely be postponed until after the elections. The political composition of the next coalition government will determine the fate of the two activation models.

Further reading

Iltalehti [Iltalehti newspaper] (2018), *Aktiivimallissa karmea puute: ei vieläkään selvää, mitä aktiivisuus tarkoittaa* ["There is a catastrophic failure in the activation model: it is not clear what activity means"]: <https://www.iltalehti.fi/politiikka/a/201803092200781359> [retrieved 28 December 2018].

Kvist, J. (2015), *Reform of the Danish unemployment insurance scheme*, ESPN Flash Report 2015/64: <http://ec.europa.eu/social/BlobServlet?docId=14837&langId=en> [retrieved 27 December 2018].

Ministry of Social Affairs and Health (2018): <https://stm.fi/en/unemployment/activation-model-for-unemployment-security> [retrieved 27 December 2018].

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Uusitalo, R. (2018), *Aktiivoiko aktiivimalli* ["Does the Active Model activate?"]: <http://blog.hse-econ.fi/?p=9075> [retrieved 28 December 2018].

Yle [The Finnish Broadcasting Company] (2018a), *Kelan päällikkö aktiivimallista: Työttömien aktiivisuudessa ei mitään merkittävää muutosta* ["Head of Kela: No significant change in the activity of the unemployed"]: <https://yle.fi/uutiset/3-10145890> [retrieved 28 December 2018].

Yle [The Finnish Broadcasting Company] (2018b), *Aktiivimalli voi leikata työttömyyskorvauksesta yli satasen* ["The Activation Model may cut unemployment benefit by more than 100 euros"]: <https://yle.fi/uutiset/3-10561494> [retrieved 28 December 2018].

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