



## **The views of LO (the Swedish Trade Union Confederation) on issues concerning Unemployment Insurance System**

The mutual insurance systems in Sweden protect the economy of the individual in the event, for example, of sickness or unemployment. It is based on the principle that all participate and jointly share the risks and costs. Society assumes a common responsibility for unemployment, which is reasonable since the individual cannot be expected to influence all of the factors that cause unemployment. In return the individual is expected, in order to obtain benefits, to contribute by seeking work and, in the event of a lack of work, to participate in activities which strengthen human capital.

It is alien to the Swedish system to impose, as a present, a charge in order that the unemployed will bear their own costs and, in addition, to differentiate fees on the basis of unemployment, albeit very slightly.

### **Change in benefits**

The reduced unemployment insurance benefits levels will affect a large group of people who, on 1 January 2007, will receive reduced benefits. According to the Joint Organisation of the Unemployment Benefit Societies, approximately 110,000 people who currently obtain unemployment benefits at 80 per cent of previous salary will have their benefits reduced to 70 or 65 per cent since they have reached their 200<sup>th</sup> or 300<sup>th</sup> day of benefits respectively. 75 per cent of them are women.

In the longer term, there is a risk that the reduced benefits levels will also put pressure on minimum wages. It will be very difficult for the unions to maintain minimum wages within, e.g., the service sector, where there will be large supply of labour with very low pay. The lowest wages at which individuals are prepared to perform particular work will be far below the contractually agreed minimum wages.

There is a risk that the greatest downward pressure on wages will occur in those professions where there is a large supply of low-skilled labour and where the conditions are such that there is a high degree of replaceability (for example, a large number of temporary positions,). These professions are dominated by women. Thus, the policy is directly contradictory to one of the union organisation's important strategies for reducing the wage gap between women and men – namely, to increase the lowest wages.

In its budget proposal, the Government has not taken into account that the policy conducted will increase income differentials more than marginally. On the contrary, they anticipate a falling *income spread* since the Government is counting on more people having wage incomes. What is not mentioned in this analysis is the effect on the *wage spread* that the Government's policy can be expected to produce. An analysis which includes the effects on wages would show greater differentials. This is due to the fact that increased economic incentives to seek work will lead to more jobs only as a

consequence of the unemployed lowering their wage demands, thereby creating demand for low-paid jobs.

- The Swedish Trade Union Confederation is thus of the view that a reduction in the unemployment insurance benefits levels will lead to increased inequality.

### **Changed conditions for access to the insurance**

Most of the restrictions that the Government is now introducing with respect to access to unemployment benefits, or for retaining benefits, will, instead, have the effect of forcing people further from working life. The fact that the work requirement is increased to 80 hours/calendar month, that the calculation of normal work time is extended from 6 to 12 months, and the proposal that the exempt period due, e.g. to illness, parental leave or studies (*Sw. överhoppningsbara tid*) be reduced from 7 to 5 years, are regarded by the Swedish Trade Union Confederation as reforms which will hit women harder than men.

- The Swedish Trade Union Confederation believes that the proposals whereby it will be more difficult to qualify for benefits and easier to lose unemployment benefit society cover run the risk of shifting a portion of those with the weakest link to the labour market from income-related insurance to alternative forms of maintenance, e.g. social security benefits, and thereby such people being removed even further from the labour market.

### **Obligatory unemployment insurance**

The Government has announced that membership of an unemployment benefit society will become obligatory and that this is to be studied speedily in order that it might enter into force around the beginning of 2008.

The Government, which purports to support the Swedish labour market model, should be aware of the fact that a high level of union membership and the fact a high proportion of employment on the labour market is covered by collective agreements, are prerequisites for this model.

In order for the Swedish model to function, both employers and the unions must be accepted and respected by the Government, and the latter should not seek to actively weaken one of the parties.

The fact that unemployment insurance is voluntary and organised by the trade unions (the Ghent system) constitutes a part of the Swedish labour market model which is characterised by strong parties that enter into collective agreements. From an historical perspective, this has contributed to the labour market being regulated primarily through agreements and not through legislation. This has meant that minimum wages and conditions in the workplace are established in agreements and upheld, since both the employers and unions have agreed thereon. Accordingly, the normative status of the agreements is extremely strong and the wages or conditions that are negotiated become a reality. A system whereby the individual may go to court when the employer breaches the law is much more expensive for the individual and for society and, in addition, probably provides fewer people with the right to, for example, the wages to which they are entitled.

The Swedish Trade Union Confederation perceives a risk that an obligatory system, combined with other changes carried out in the manner currently being conducted by the Government, runs the risk of substantially impairing confidence in the insurance and undermining the Ghent system since there is a risk that union interest in participating in unemployment insurance will be diminished. An obligatory system, together with high fees that vary between the unemployment benefit societies, will provide a reason for

actively or passively choosing an unemployment benefit society other than the one run by the union. For many people, joining an unemployment benefit society is, at the same time, a natural entry into the union. If this entry disappears and the unemployment insurance is adversely affected by higher fees, stricter qualification requirements and lower benefits levels, the unions will have significantly less reason to be associated with this insurance. An unemployment insurance and labour market policy with a fair balance between demands on, and support for, the unemployed represents a prerequisite for the union being able to accept the structural change in the economy.

- The view of the Swedish Trade Union Confederation is that the labour market will function less well if the trade unions become opponents to the unemployment insurance regulatory régime instead of, as today, defending the insurance's strict demands that the unemployed person actively seek work and be willing to accept a change in the type of work. The Government must, therefore, design an unemployment insurance system which the employee party can defend.

The Government's handling of the issue will also result in a number of administrative problems regarding the administration of the increased fees by the unemployment benefit societies.