



True North In Canadian Public Policy

Straight Talk

February 2014

Straight Talk: With Sven Otto Littorin

PART 2 OF 2

In the latest instalment of *Straight Talk*, MLI spoke with Sven Otto Littorin, who, as Sweden's Minister for Employment, oversaw a number of major policy reforms. He explains the Swedish approach to employment insurance, which could hold lessons for Canada. The interview has been condensed and edited for clarity.



Sven Otto Littorin was Sweden's Minister for Employment from 2006–2010, in charge of major policy reforms, including an overhaul of the unemployment insurance system and a complete renovation of the Public Employment Service. During the Swedish Presidency of the European Union in the fall of 2009, Mr. Littorin was President of the European Council of Ministers, in its EPSCO formation (Ministers for Employment, Social Policy, Health, and Consumer Affairs). As such, he oversaw the European Union response to labour market effects caused by the financial crisis of 2008–09. In the previous election term, 2002–06, Mr. Littorin was the Secretary General of the Moderate Party. He is currently an independent adviser on change management, policy reform, and related issues.

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In Part 1 of the interview, Littorin focused on how Sweden delivers health care, and how Swedes' demands for good service and the need for efficiency led to incremental reform of the system. He spoke of the Swedish character and how that informs debates about public policy.

Littorin: I think it's probably a bit difficult when you're in the culture to describe it accurately, but I think there are a couple of patterns that stand out to me at least. One is that it's very egalitarian. It probably has a long historical background from the Vikings and onwards. You are supposed to be among others in a group rather than being the big guy, and that goes across the line actually. The second is that we are also a Lutheran country, which means that there is a strong work ethic almost to the brink of ridiculousness. You work, otherwise you're not pulling your weight. The third characteristic would be an engineering tradition, which makes things quite methodical or logical, if you like, also to the brink of ridiculousness because every government agency in Sweden looks the same and has the same set of governance around it and so on.

MLI: Previously we spoke about how Sweden's health care system works, and that was very revealing for Canadians who are concerned about their own system. Perhaps now we can talk about some of the things that you were responsible for as Employment Minister, particularly the employment insurance issue because it's a big issue for Canada. We have a rather passive, hands-off system. There are allegedly requirements that you must be looking for a job and so on, but these are very little policed, if one can put it that way. A common understanding is that the Swedes have a different approach and we'd like to hear about that.

Littorin: I think it goes back to this fundamental, egalitarian, engineering work ethic sort of thing we have in Sweden. We did have an unemployment insurance system introduced in 1934. It covers 80 percent of previous pay up to a certain ceiling for 200 days and then 70 percent for another 100 days and then 65 percent after that. What we did is we tightened this system quite a bit and we decreased the payouts—we made it into this incremental sort of step-by-step thing. We made it a bit harder to get into the system; we introduced a premium that people have to pay at the same time we introduced a work tax credit, so the net was very positive.

The point was to make it look and feel and behave more like an insurance system rather than just a pay-out. As in any insurance, what you want to do as an insurer of course is to minimize risk. Within the unemployment insurance system, unemployment is your risk, so how do you do that? How do you make sure that people have the right incentives to get back into the labour force? Well, it's like a contract. We say to people who are unemployed, "Okay, we understand that you need a source of revenue, you need something in the period you are unemployed so that you can have food on your table and pay your rent. We'll make sure that you have that, but we'll also demand something from you. We'll make sure that you, especially in the early days, actively look for a job, which means that you are required to go to a place every day you are unemployed".

MLI: This is to an office of the government to report?

Littorin: Absolutely. If you don't show up there is a system of sanctions that takes place. The first time you'll probably get a phone call. The second time you get a deduction of one day of your unemployment benefit and so on up until you're actually excluded and kicked out of the system. Towards a later stage, if you've been unemployed for 100 days or more, you will get some training and what happens is that you get an assessment or you'll be assessed together with the Public Employment Service on what skills you are lacking: What can you do? Is there any way we can improve? And there will be individual plans set up for each and every person which will then be executed on in terms of training, re-training, education, what have you.

Basically the point is that we take away peoples' free time when they are unemployed, making sure that they look for a job or get the right training, so they can get back as soon as possible. I think that's the way to do it. So, it's lots of active labour market programs and lots of activities; anything that can help people get back. The average time that a person is unemployed in Sweden is somewhere in the range of 90 days, which is not long. We are fortunate enough to have a high turnover in our labour market and people do get back to a job rather quickly.

MLI: And to what extent do you attribute the quick return to work to the kind of active labour market you described?

Littorin: It's a combination of financial incentives and active labour market programs, absolutely; it definitely is because it's not in our culture to just hand that money to idle people, if you like. We will pay you quite a decent bit of money, but you have to do your part as well, so it's like a mutual contract.

MLI: It sounds like a fairly big bureaucracy must be required to handle every unemployed person.

Littorin: Yeah, well it's not that difficult. We have a labour market of about 4.5 million people and the Public Employment Service has 10,000 people employed, so I mean, it's not that bad. You should note that the unemployment insurance system is neither compulsory nor government operated, which is quite interesting. It's mainly operated by the trade unions. It is subsidized by the government, by the taxpayer, for about 50 percent but the rest of it is paid for by contributions. That is quite interesting, it's very un-Swedish. This is sort of a private system, if you like. The reason is that we do like our trade unions. Even I like our trade unions and having this insurance system operated by the trade unions is a way of keeping up membership, to be honest—a high unionization rate. The good news for a centrist like myself is that if you have a high unionization rate, trade unions become very representative of the workforce. When I'm a bit un-Swedishly naughty I would say that it keeps out the crackpots in the unions and you get the good people instead.

MLI: And how does the system treat seasonal workers? In Canada, most of us have a risk of being unemployed, but it's not a certainty. With a seasonal worker, it's absolutely certain they're going to be.

Littorin: It covers that part of the seasonal work if you're unemployed for that seasonal part, but it doesn't cover the rest of the year, and that's the way it should be. Now, I did encounter some problems especially with people in the fishing industry because they told us, well basically you give us quotas and when I fished out my quota I cannot work in the line of business that I'm in, so the public employment insurance system should cover me. I had to come back to them and say, no I'm sorry, it's not going to cover you. If you don't like the business get out of it or get another job. It's not an unemployment insurance issue. It's a subsidy of one industry, so it becomes an industrial policy issue. Let's keep the unemployment insurance system clean so that it actually insures loss of income and not just anything.

MLI: In Canada one could also argue that if we give unemployment insurance to seasonal workers it's a subsidy to seasonal employers. If you didn't, the workers wouldn't hang around.

Littorin: Right, and there are ways around that. We have a big discussion going on with people in the theatre business. It's not a huge business, but it is there and they came to us and said, well listen, our season is from September to December and then from February to May, but there are chunks of months where there is no work to be had because we're not open. They wanted the insurance system to cover them and I said, well, I'm so sorry but that's not going to happen because the insurance system covers income loss. If there is no income there is nothing to insure. So, basically what happened then was that these small theatres that are all struggling with their economy basically joined forces to be able to

provide a longer employment period for their actors. So, they joined hands basically to solve this issue themselves. That happens in some cases, but it doesn't happen if the government would just say, okay we'll hand out money to anyone.

This is in a very entrepreneurial part of the country: There were two factories basically door to door. One was making lawn mowers and the other one was making heating equipment for something and they used to have seasonal workers. They joined forces and their seasonal workers then became full-time workers. They were working in one plant one part of the year and the other plant the other part of the year. So, I mean, these are practical issues; let's solve them, let's not just throw money at them. Let's just solve the problem.

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MLI: So, let's take the example of someone in Sweden working in the fishing or forestry industry or whatever and every year that industry employs them for 10 weeks. And then one year they only get employed for five weeks, you would make up the missing five or six weeks that they would have worked in the past?

Littorin: Yes.

MLI: But you wouldn't fill the non-seasonal work period with benefit?

Littorin: No. That is why the fishermen came to us and said, "Listen, this doesn't work. You told us how much we could fish so you're to blame". I said, "Well I'm sorry but that's the way the land is. If it's a problem for you that you cannot find work for the other 40 weeks of the year, change businesses, you know, do something else". It might be a hard way to say these things, but we can't beat around the bush because if we do want a fishing industry and there's only work for 10 weeks at a time, for me it's not an issue for the Public Employment Service or the unemployment insurance system, it's then an industrial and political decision made for an industry, which is something different. Maybe we want to subsidize the fishing industry in that respect. Okay, so that's a conscious decision, but it's not an unemployment insurance system decision in my mind.

RECOMMENDATIONS

- 1) Treat employment insurance as a true insurance program, rather than a subsidy to business.
- 2) Make payments generous but require recipients to actively seek work and take part in training.
- 3) Cover seasonal workers for lost wages in season, but not during the off-season. Allow industry to devise solutions to seasonal unemployment.



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I commend Brian Crowley and the team at MLI for your laudable work as one of the leading policy think tanks in our nation's capital. The Institute has distinguished itself as a thoughtful, empirically-based and non-partisan contributor to our national public discourse.

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PETER NICHOLSON, FORMER SENIOR POLICY
ADVISOR TO PRIME MINISTER PAUL MARTIN

I saw your paper on Senate reform [Beyond Scandal and Patronage] and liked it very much. It was a remarkable and coherent insight – so lacking in this partisan and anger-driven, data-free, ahistorical debate – and very welcome.

SENATOR HUGH SEGAL, NOVEMBER 25, 2013

Very much enjoyed your presentation this morning. It was first-rate and an excellent way of presenting the options which Canada faces during this period of "choice"... Best regards and keep up the good work.

PRESTON MANNING, PRESIDENT AND CEO,
MANNING CENTRE FOR BUILDING DEMOCRACY