

## Paltamo Full Employment Experiment in Finland: A Neo-chartalist Job Guarantee Pilot Program?

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Finland faced a severe financial and economic crisis in the early 1990s, which led to unprecedented growth of unemployment in modern Finnish history. During the period 1989–1991, the rate of unemployment was around 3 percent, but unemployment reached even 18 percent in 1994. The early 1990s' crisis in Finland was a debt-deflation crisis caused by uncontrolled financial liberalization, and growth of foreign debt in the late 1980s. Fiscal policy of the late 1980s, on the other hand, did not react aggressively enough to the financial boom. In the early 1990s, the financial crisis was prolonged by the collapse of the export market in the Soviet Union, hard currency policy<sup>1</sup> and harsh fiscal austerity policies (See Jonung et al. 2008).

After the depression, Finland experienced an era of strong export-led growth boosted by the ICT, metal and forestry sectors in the late 1990s and early 2000s. Finland joined the European Union in 1995, and decided to join the European Monetary Union in 1998. Interventionist developmental state growth policies (see Jäntti and Vartiainen 2009) were replaced with a

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new emphasis on liberalizing direct foreign investment and on building national innovation system and clusters.<sup>2</sup> Supporting the growth of private and public R&D expenditure became an economic policy priority (Pohjola 1996). Few were able to predict during early 1990s' depression that Finland would become a well-known high-tech exporter in only a few years.

On the other hand, the Finnish economy experienced an era of growing inequality in the late 1990s. It must also be emphasized that despite the export-led boom, the rate of unemployment was stuck at around 10 percent still in 1999, and long-term unemployment had become a permanent social problem. As both Koskela and Uusitalo (2004) and Lindvall (2006) have noted, the Finnish and Swedish unemployment levels reached "the European level" in the 1990s. The era of mass unemployment emerged, and the Finnish economy never returned to low unemployment rates of the 1980s.

Paltamo is one those small municipalities in Northeastern Finland that has suffered from intolerable unemployment rates.<sup>3</sup> Initially, a debate emerged in the regional council of Kainuu on the high costs of long-term unemployment in the late 1990s. This debate led to the Paltamo full employment experiment, which took place in 2009–2013. Paltamo operated a public employment program that aimed at providing a suitable job for all unemployed jobseekers, improving the health, well-being and employability, and replacing various social and unemployment benefits with a single wage income. In the Finnish debate, the experiment has been portrayed as a full employment and active labor market policy (ALMP) model, but also as a new structural solution to social policy. Subjective right to work was realized in practice. Everyone who applied for a job was employed, if the applicant was able to work at least 4 hours and 45 minutes a day.

The experiment brought unprecedented publicity to the small municipality of Paltamo in Finland, and it also started a debate about full employment and "activating" or "holistic" alternatives to current employment and social policies. Finnish policy makers, journalists and civil servants were eager to know, if the much talked "human experiment" in Paltamo would be a success or failure. The experiment was small in size (its gross cost was €17.1 million in 2009–2013), but it has been thoroughly researched by various ministries, research institutes and universities in Finland. This chapter refers extensively on the final report of the Paltamo Project Evaluation Study Group to which large number of researchers contributed (Kokko et al. 2013). The chapter also continuously cites Anne Huotari's final report (Huotari 2014). Huotari was one of the main initiators of the experiment as

a local MP, and she also played a major part in planning and implementing the experiment at the ground level.

The chapter is organized as follows. The section History and Main Characteristics of the Experiment provides a short history of the experiment. The section House of Active Employment Became a Large Workshop discusses how a workshop of over 300 people was practically organized in Paltamo. The section Did It Work? Effects on Health, Well-Being and Employability and Subjective Experiences in Different Age Groups discusses the research conducted by the National Institute of Health and Welfare. The section Nature of the Experiment: Active Labor Market Policy, New Structural and Holistic Solution in Social Policy, or Neo-chartalist Job Guarantee Pilot? discusses whether the experiment should be seen as a new form of social policy, active labor market policy, or rather as a neo-chartalist Job Guarantee (JG) program. The section Job Guarantee Programs, and the Dangers of Workfarism in an Advanced Welfare State debates public employment policies in the context of workfarism. The section Thought-Provoking, but Expensive: Paltamo in the Public Debate discusses public reactions to the experiment. The section Practical Lessons asks, which kind of problems should be taken seriously when developing local public employment schemes? Lastly, we discuss political possibilities for implementing a nation-wide JG scheme in Finland.

## HISTORY AND MAIN CHARACTERISTICS OF THE EXPERIMENT

Since the late 1990s, the policy makers in the Kainuu region became more and more aware of the cost of long-term unemployment.<sup>4</sup> It was estimated in 2003 that the annual price tag of unemployment to the taxpayer had reached €100 million in the region, and the employability and well-being of the long-term unemployed were eroding. In this context, MP Anne Huotari and local entrepreneur Arto Okkonen proposed that a new active employment policy and social policy experiment should be tested in Paltamo. A concrete regional project to plan and organize the project was started in 2006, and it included participants from the Paltamo municipality, trade unions, local entrepreneurs organization, local employment office, and from the regional government. (Huotari 2014; Laurikainen and Huotari 2010.)

A concrete application to get funding from the state was submitted in summer 2007, and after the plans were concretized, the Finnish parliament granted the funding in May 2008. The initiative was fortunate to find support from Mr. Raimo Sailas, who was an influential State Secretary at the Finnish Ministry of Finance at the time. Sailas, often presenting the harsh “Treasury view” in Finnish public debate, especially in the late 1990s, became the “godfather” of the experiment. According to the original plans, the experiment was supposed to run from 2009 to 2012, but it turned out that there were enough funds available to run an extra year in 2013. (Huotari 2014.)

Preparations began after the financing was secured. General goals for the experiment were defined by the stakeholders. The idea was to find new approaches to employment and social policy that could be also be adopted at a national level. *Koulutusavain Ltd* and Anne Huotari won the bid to start preparing the implementation of the experiment. Huotari visited federal state Sachsen-Anhalt in Germany to search for inspiration in terms of practical implementation. Sachsen-Anhalt had operated in the municipality of Bad Schmiedeberg the *Bürgerarbeit*<sup>07</sup> experiment, which aimed at activating the long-term unemployed. (Huotari 2014, 11.) Both Sachsen-Anhalt and Kainuu region are peripheral areas in their respective countries, where the rate on unemployment is at a higher level than the national average.

The practical implementation of the experiment was given to the *Paltamo Employment Association*. The executive committee of the association was formed by the Paltamo municipality, the social partners and the entrepreneurs’ representative, but the municipality was responsible for the implementation. Starting 1.1.2009, the municipality first directed the jobseekers to *Jobseeking Club*, which first aimed at surveying individual’s strengths, skills and education, and then tried to find the person a suitable job from the private sector or so-called open labor market.<sup>5</sup> In the second stage, if there were no opportunities in the open labor market, the municipality would hire the jobseeker directly for the *House of the Active Employment* (HAE). Some jobseekers would, however, skip the Jobseekers Club and join the HAE directly through local employment office. (Hämäläinen and Hämäläinen 2012; Nenonen and Kajanoja 2012.)

At the HAE, daily minimum working time was 4 hours and 45 minutes, and maximum 8 hours. Rehabilitating activities were organized for those individuals who could not work. Gross minimum wage of the program was

€918, and average minimum wage was €1079 a month in 2011. Some participants could even receive maximum gross wage €2260 a month based on their earnings-related unemployment allowance. Different work histories, and thus differing unemployment benefit levels, explain much of the wage range.<sup>6</sup> It was ensured with the trade unions that wages were in accordance with sectorial tariff agreements. Wage incomes received from the HAE always exceeded unemployment allowance and other income from social benefits. (Nenonen and Kajanoja 2012; Hämäläinen and Hämäläinen 2012.)

The experiment was a success in terms of securing a subjective right to work and in decreasing the rate of unemployment. Before the experiment began (31.12.2008), the rate of unemployment was over 19 percent, but in 2010 and 2011 the unemployment rate reached even below 4 percent. However, after the experiment ended, the rate of unemployment reached 20.1 percent in April 2014 (Kalliokoski 2014). Individuals who did not enroll in the program usually had well-justified reasons for not taking part. High-school graduates were, for example, waiting for their studies to start. Individuals who enrolled had different kinds of education and career profiles. There were youth with little work experience and with no secondary education. Participants also included 50 year olds long-term unemployed with alcohol problems, and competent middle-aged people with long working careers. (Nenonen and Kajanoja 2012, 4.)

One central goal of the experiment was also to provide welfare, health and career advice services “under one roof” (Nenonen and Kajanoja 2012). Finland is a modern Nordic welfare state, and in the Finnish model municipalities have been in charge of providing, or at least financing and organizing, primary and secondary education, as well as universal social and health services. It has been noted, however, that the socially excluded individuals such as alcoholics and disoriented young people are not always aware of their social rights and the welfare and health services they are entitled to. The idea was that if the municipality would be able to bring socially excluded parts of the society to the HAE and to meet the social workers, authorities could then find ways to help them. HAE, in other words, brings social problems “into to the light”. At the HAE participants were provided occupational healthcare, and working at the HAE accumulated earnings-related pension benefits.<sup>7</sup>

## HOUSE OF ACTIVE EMPLOYMENT BECAME A LARGE WORKSHOP

How was the experiment organized? What kind of tasks and jobs did the participants perform at the HAE? What other activities took place during the 5 years? HAE itself was operated in a renovated old school building. It practically became a large workshop, which employed over 300 individuals. Workshops became the main activity at the HAE. The Paltamo Employment Association first hired supporting staff, who were instructed to run various workshops for the jobseekers. Other activities included education, training, rehabilitation, jobseeking, outsourcing work for local businesses and organizations, and mentoring. (Huotari 2014.) The idea was to find the right job for the individual, but also to promote social interaction and community building, and to develop activities that stem from local needs and priorities.

During 2009–2011, workshops were established for carpentry, construction, repairing, textiles, fishing equipment, and bike repairs. HAE also operated a bakery and a local shop. The participants also planned and operated local activities for the municipality, ran an Internet site, and offered office and cleaning services locally. In 2011, HAE started new activities such as second-hand shop, cafeteria at the market place and more traditional public work labor programs outdoors. Jobseekers also performed subcontracting jobs for businesses nearby. Participants built fish traps, and parts for snow shovels, and ski poles. Some participants built outbuildings for the businesses. (Huotari 2014.)

The experiment also aimed at opening new job opportunities in the private sector. Supporting staff at the HAE also included a person, who would visit local firms, and look for employment opportunities for the HAE program participants. It was possible for the jobseekers to work a month at a local business with HAE wage. The participants saw these “paid internships” in different ways. Some thought that private sector employers were only interested in free workforce, while others saw a genuine possibility to show their capabilities and skills (Nenonen and Kajanoja 2012, 44). Local businesses employed more participants from the HAE during summer time. Youngsters were able to get summer jobs, and construction sites were, of course, more active in the summer. The municipality also hired HAE jobseekers to kindergartens, schools and social services. (Huotari 2014.)

HAE offered a possibility to acquire certificates on different skills (such as “computing card”). There were also courses offered on how to help the

elderly, improve social interaction skills and on how to encourage entrepreneurship. The experiment also aimed at building a community through supporting different kinds of hobby groups. It was hoped that the participants could build social networks through these activities. A karaoke group visited the elderly and the kindergartens. There was an English-speaking club to improve English-speaking skills. The young participants started and operated several art and culture projects. (Huotari 2014; Kokko et al 2013.)

There was dissatisfaction with the director of the HAE in 2010 and 2011, which led to his dismissal in November 2011. Supporting staff and HAE participants felt that their concerns were not being heard, and new director Anne Huotari embraced the idea of participatory leadership. Efforts to provide personal counseling at the HAE were intensified. New forms of HAE activities were also being considered. The online magazine *Paltari* was started by three participants. There were also new efforts to promote entrepreneurship and commercialization. Participants, for example, innovated and built a new kind of “barrel sauna”, and they managed to sell 10 of these in 2 years. Other participants started an education to become practical nurses, who are needed in a rapidly aging Finland. (Huotari 2014, 17–18.)

## DID IT WORK? EFFECTS ON HEALTH, WELL-BEING AND EMPLOYABILITY AND SUBJECTIVE EXPERIENCES IN DIFFERENT AGE GROUPS

Research on the effects on well-being, health and employability was executed by various research groups, but it was coordinated by the National Institute of Health and Welfare. In this section we provide a short overview on the effects based on the final report by The Paltamo Employment Project Evaluation Study group. (Kokko et al. 2013.) The evolution of health and well-being of the HAE participants was, most of all, compared with the employed population of Paltamo and unemployed persons from the comparable municipality of Sonkajärvi. Altogether, researchers were interested in the evolution of employability, labor market status, family relations, housing conditions, subjective well-being, psychological well-being, and personal lifestyles.

Evaluation study’s chapter on health and well-being emphasizes that there is some empirical proof that health and well-being of the HAE participants progressed more favorably in comparison to employed

population in Paltamo. High-risk use of alcohol decreased, eating lunch and using occupational healthcare became more common, trust toward public institutions strengthened and share of those feeling lonely decreased. On the other hand, there was no sudden change in personal lifestyles or in the health of the participants.

It seems that different age groups had different perceptions and subjective experiences. The Paltamo evaluation study evaluates that for many young persons (16–24 year olds) joining the HAE was a welcome “pitstop” before joining the open labor market or before attending a university or a vocational school. Youngsters often enjoyed “tinkering” at the HAE, but working at the HAE is hardly a permanent solution for most young people. A debate emerged that the HAE might be a safe solution for many youngsters, but it is not ideal to stay for too long. The experiences were more mixed within the age group 25–50. Many individuals thought that work tasks at the HAE were not challenging enough, and they felt they had performed more challenging tasks before. There was also dissatisfaction with the wage level. In the age group of over 50 years, large number of individuals experienced the HAE as a chance to return to the open labor market. Social interaction was seen as an important aspect of the program among the older participants.

#### NATURE OF THE EXPERIMENT: ACTIVE LABOR MARKET POLICY, NEW STRUCTURAL AND HOLISTIC SOLUTION IN SOCIAL POLICY, OR NEO-CHARTALIST JOB GUARANTEE PILOT?

The Paltamo experiment has been characterized as the first full employment experiment in Finland, but the idea of creating employment opportunities for the long-term unemployed at the local level was not entirely new in the Finnish context. Before the birth of the modern welfare state in the 1960s, Finland had operated public works programs in the 1950s (Kalela 1989). A more recent precedent for the experiment was the Finnish “full employment act” of 1988, dubbed as *Lex Leppänen*, which had obliged municipalities to provide employment opportunities for the long-term unemployed. During the 1990s’ depression and mass unemployment, however, the obligations for the municipalities to employ were dismantled.

The experiment should also be analyzed in the context of active labor market policy (ALMP). Two Swedish trade union economists, Gösta Rehn



and Rudolf Meidner, had outlined the main features of ALMP during the Swedish full employment era in the 1950s, and the OECD adopted their approach in 1964. The influence of neighboring Sweden and the OECD, as well as the emergence of tripartite social corporatism in the 1960s and 1970s, contributed to the adoption of modern ALMP policies in Finland. The emphasis of the Finnish ALMP policy has naturally evolved over time. Reforming the work incentives became a central concern for policy makers in the mid-1990s. (Heinonen et al. 2004; Kananen 2011.)

It is clear that various stakeholders perceived the Paltamo experiment as a form of ALMP. According to Paltamo Project Evaluation Study Group (Kokko et al. 2013) the “Paltamo full employment experiment is conceptually part of active labor market and social policy, and its central purpose is to improve the services provided to unemployed persons who are in danger of social exclusion. The idea is that in order to receive social benefits, which are paid due to unemployment, the unemployed person should be active in job searching and in sustaining employability. The basic idea of active labor market and social policy is to support social and occupational skills, and to support voluntary integration back to working life”.

Finnish ALMP often emphasizes the need to build intermediate labor market, which refers to subsidized labor markets, in contrast to nonsubsidized open labor markets (Von Herzen-Oosi et al. 2010; Oksman 2011). In this context, the Paltamo experiment can be seen as part of the wider effort of ALMP proponents to create subsidized employment opportunities. During the experiment there were also other national initiatives in this field in Finland. The Ministry of Employment and Economy, and the Ministry of Social Affairs and Health operated a nation-wide program in 2007–2013 to develop subsidized intermediate labor markets to help the long-term unemployed back to open labor market (Kokko et al. 2013). The Finnish government also introduced a youth guarantee program in 2011, which aimed at providing a place to study, internship or a job for every unemployed young person.

The Paltamo experiment has also been portrayed as a new alternative in Finnish social policy. According to Kokko et al. (2013), “the project has introduced a new structural solution to the social security of the unemployed and a new wage model where funds are initially re-allocated to employment services”. The Paltamo model was seen as an active, holistic form of employment and social policy, in contrast to systems of passive unemployment benefits (Huotari 2014). Of course, there are already

“active” elements in the Finnish social security, and many unemployed are already obliged to take part in different “activation” measures (Kananen 2011).

But what similarities does the Paltamo experiment have with JG and ELR programs that have been suggested by scholars who theoretically stem from Post-Keynesian, neo-chartalist and right-to-work traditions? It is, first of all, clear that, both, Anne Huotari (2009), initiator of the Paltamo experiment, and neo-chartalist and right-to-work JG proponents (Wray 2007; Minsky 2013; Harvey 2005; Tcherneva 2012) see that employment is crucial for the well-being and health of individuals. Both also see that jobs should be tailored to the characteristics of jobseekers and that unemployed persons should be taken “as they are”. As it has been emphasized, program participants in Paltamo were paid decent wages in accordance with tariff agreements, and they became entitled to occupational healthcare and earnings-related pension insurance. Neo-chartalist scholars have suggested that job guarantee participant should get paid decent minimum wages, and that they should be entitled to occupational benefits.

In this sense it seems justified, as the title of this chapter suggests, characterizing the Paltamo experiment as a neo-chartalist job guarantee pilot program. There is, however, a clear tension between Finnish ALMP and social policy thinking and neo-chartalist theory concerning the role of aggregate demand management, and the need for permanent JG programs in a capitalist economy. Neo-chartalist authors emphasize that market processes do not automatically bring the economy to true full employment (Wray 2012). There is a permanent need for JG programs that automatically stabilize private demand fluctuations, and operate as “buffer stock” of labor (Mitchell 2000). In contrast, it is common for ALMP scholars to portray standard Keynesian counter-cyclical fiscal policies as outdated and promote employability as the key question in employment policy (Morel et al. 2012). The main idea of Finnish ALMP is not to achieve full employment and stabilize the aggregate demand fluctuations through public employment programs, but to promote employability of the unemployed individuals so that they could move to open labor market in the near future.

It was one of the original aims of the experiment to help individuals back to open labor market (Huotari 2014). But this aim turned out to be especially difficult to achieve after the global financial crash of 2007–2009 and during the Eurozone crisis, which hit Finland especially hard. The Finnish economy experienced a double dip recession and structural crisis

during the Paltamo experiment, which also weakened the labor market in Paltamo and in the whole Kainuu region. Major local companies were also laying-off employees. This offered a chance for the critics to claim that the whole Paltamo experiment had been a failure (Ikonen 2013). Initiators of the experiment had not adequately addressed the question that a capitalist monetary economy can be permanently stuck in a high unemployment and underemployment equilibrium without activist Keynesian policy.

### JOB GUARANTEE PROGRAMS, AND THE DANGERS OF WORKFARISM IN AN ADVANCED WELFARE STATE

The Paltamo experiment was motivated by the progressive idea that everyone should be entitled for a job (right-to-work philosophy), but critics have pointed out that in practice the experiment included significant workfarist elements. Enrolling in the HAE was originally intended to be voluntary, but there were cases where the unemployed person would lose unemployment benefits for a limited time period if they would not take part in HAE. Most participants, however, enrolled voluntarily. (Kokko et al. 2013.)

As it has been pointed out, workfarist ideas have had a major influence on Finnish tax, employment and social policy reforms and debates since the 1990s (Kananen 2011). In recent years, policy proposals based on the non-accelerating inflation rate of unemployment (NAIRU) theory such as labor market deregulation, expansion of low-wage sectors and cutting earnings-related unemployment allowance have been highly influential in the debate (Vartiainen 2013). During the 2011–2015 electoral term, there was also a big debate about “participatory social security” in Finland,<sup>8</sup> and the Finnish government is introducing new workfarist sanctions for unemployment benefit claimants. There is a real danger that progressive right-to-work employment programs (ideally paying decent wages and supporting individual’s employability and well-being) are turned into programs that simply make the unemployed work for their unemployment and social benefits, and that pressure individuals to accept jobs with worse working conditions.

Harshest critics have claimed that both participatory social security and the Paltamo experiment are the Trojan horse to make people work for their unemployment benefits. On the other hand, it can be said that the workfarist elements of the Paltamo experiment were exaggerated by its critics. The highest-ranking civil servant in Paltamo, Arto Laurikainen, has

noted that before the experiment started, there was local criticism that HAE would even use “forced labor”. But when the experiment was about to end in late 2013, questions were raised what would happen to the unemployed persons afterwards (Huotari and Laurikainen 2013).

The longer historical development of the Finnish welfare state also explains much of the pessimistic debate around public employment programs. Before the Nordic extensive welfare state and social security systems emerged in Finland during the 1960s, the Finnish state used public works programs, such as road building, as antipoverty policy. In the histories of social policy, these programs are usually seen as old-fashioned,<sup>9</sup> and moving toward unemployment insurance systems was seen as part of Finnish society’s modernization process (Kalela 1989). Finnish history with public works programs is in fact rather different from the US experience, where President Roosevelt’s New Deal era public works programs are often seen as the great progressive achievement that helped to bring people back to work, and build key infrastructure.

In the context of Finnish historical experience and the influence of workfarist ideas in various OECD countries, we wish to emphasize that enrolling in public employment programs such as in Paltamo should always be voluntary, and that progressive JG proposals necessitate basic income or basic social security that is provided, even if the unemployed person is unwilling or unable to take part in the employment program. In practice, the welfare state should always provide a decent social security, and jobseekers should have the possibility to earn a more generous wage income through public employment programs. Decent social security and JG schemes should be seen as complementary, not contradictory, policies. This approach would also help building an alliance between supporters of Job Guarantee and Basic Income schemes. Basic Income has become a major social policy debate in Finland during the past years. Current government in Finland has decided to launch a small-scale basic income experiment during the electoral term.

### THOUGHT-PROVOKING, BUT EXPENSIVE: PALTAMO IN THE PUBLIC DEBATE

One of the main economic goals of the experiment was to reduce the costs of unemployment to the taxpayer, and the society as a whole. Arto Laurikainen has emphasized that Paltamo municipality expected that the

experiment would be cost-neutral for the municipality, and that public employment would pay itself back especially in the long run. (Kokko et al. 2013; Hämäläinen et al. 2013.) Anne Huotari (2014) stated that the original premise of the experiment was to ask, if it is in fact expensive to guarantee a job for everyone.

The Paltamo evaluation study estimated that the gross cost of the experiment was €13.8 million in 4 years (2009–2012), but the experiment also reduced public sector expenditure with around €8 million (reduced social benefits, increased tax income, etc.). The experiment, in other words, returned 60 percent of the invested expenditure (Kokko et al. 2013; Hämäläinen et al. 2013). It was estimated by the other author of this chapter that the annual net cost for employing a person was around €4000 (Kajanoja 2014). Even though the experiment returned 60 percent of the expenditures invested, it was a disappointment to various policy makers and civil servants that the experiment did not turn out to be cost-neutral in the short term. The expenditure on basic unemployment allowance, general housing assistance and social assistance (the social security of last resort in Finland), for example, did not decrease as much as expected. The expenditure on earnings-related unemployment allowance, however, decreased significantly (Hämäläinen et al. 2013).

A research conducted by the city of Helsinki estimated that the implementing of the Paltamo experiment in Helsinki would be more expensive than in a small town like Paltamo. This is mainly because housing costs are higher in Helsinki. The same research also compared the costs of Helsinki's current ALMP and the Paltamo experiment. Helsinki is currently running rehabilitating activities for the long-term unemployed, and according to Oksman's calculations in 2010, the monthly costs of rehabilitating activities is €2098 per person, whereas implementing the Paltamo experiment would cost €2682 per person. Oksman also emphasizes that the Paltamo wage model based on different work histories would create distorted incentives. Student aid provided by the Finnish state is much lower than the minimum wage at the HAE, which might create incentives to stay at the HAE instead of studying. HAE wage might discourage individuals from taking low-wage jobs in the private service sector. (Oksman 2011)

Pekka Tiainen, a high-ranking civil servant from the Finnish Ministry of Economy and Employment, is the only one who has publicly presented initial calculations concerning implementing a wider JG scheme in Finland.

According to his calculation in 2013, the net cost of employing 200 000 individuals with a €10 hourly pay would have been €2.2 billion (Teittinen 2013). Tiainen (2011) has been one of the few voices who see a nation-wide Paltamo model as a realistic and affordable solution, if the long-term benefits are taken into account.

A common view in the Finnish press emphasized that the experiment was interesting and thought-provoking, but it would be too expensive to introduce it as a nation-wide full employment program. Anna-Sofia Berner's (2014) article in Finland's biggest daily *Helsingin Sanomat* stated that "human experiment in Kainuu enhanced self-esteem of the unemployed, but it cost too much". Journalist Heikki Ikonen (2013) wrote in *Aamulehti* that the experiment did not reduce the need for social assistance as much as it was hoped, and emphasized that the experiment was expensive, because of the cost of administration and counseling staff at the HAE. Several economists in business daily *Taloussanomat* commented that it would be too costly to implement the experiment at a national level (Teittinen 2013).

There were, of course, also voices that defended the experiment in the public debate. The proponents of the Paltamo model have emphasized that calculations only take into consideration the short-term increase of the public expenditure, but not the long-term benefits on employability, health and well-being of the unemployed individuals. It is, for example, possible to point out that social exclusion becomes extremely expensive for the society in the long term (Turun Sanomat 2013). In recent years, there has been a crisis debate concerning social exclusion of Finnish youngsters, who do not finish secondary education, who have never worked for a living. Public spending that prevents this kind of social development can be characterized as social investment.

## PRACTICAL LESSONS

Empirical academic literature on JG schemes often refers to New Deal era public works programs, or to Argentina's Jefes employment program in the early 2000s (Tcherneva and Wray 2005). But there are fewer recent cases of JG being locally implemented in OECD countries with highly developed and complex welfare state structures. In this section we wish to draw a few practical lessons from the Paltamo case, which could be useful in designing JG schemes for countries that are comparable to Finland.

The Paltamo experiment demonstrates that local municipal level is much suited to implement the JG. Activities can be planned with local needs and

priorities in mind, and JG programs are useful tools in community building. Locally provided welfare and health services can also support JG schemes in various ways. This is the case in the Finland, where municipalities have traditionally been in charge of providing universalistic welfare and health services for the whole population.<sup>10</sup> It is preferable that social and health services are easily available under one roof as was the case in Paltamo. JG can also bring local social problems into light, because socially excluded parts of the population are not always aware of their social rights in welfare states.

In Paltamo activities were much too focused on various workshops. It would have been preferable to use more local companies, public administration and NGOs in implementing the employment program. Staff leasing is also a viable alternative. But this was difficult in Paltamo, because it is a remote municipality far from big cities and centers. It should also be possible to let those who are employed in workshops to pursue other employment possibilities simultaneously. Those employed in a workshop in Paltamo were encouraged to have other temporary jobs or have their own microenterprise or freelance activities outside the workshop. JG could be a home base also for those creating jobs for themselves outside the traditional paid work.

The critics claimed that it may be too easy and safe to stay at the HAE and not try to find employment possibilities outside. Whether we agree with this concern or not, it is clear on the basis of the Paltamo experience that competent counseling personnel are needed to take care of the guidance of the employment program participants. Solving the everyday problems and presenting the future education and employment opportunities for the program participants requires high-level professionalism. It was not an easy task to hire high-level counseling personnel in Paltamo.

Many individuals experienced that their choice to enroll into the program was not voluntary. The majority of the program participants at the HAE said that it would have been better to join the HAE voluntarily. The sense of coercion created motivational problems among the employed, according to the survey. It was argued that almost everybody would have entered the experiment voluntarily anyhow.

## CONCLUSION

Debates around the Nordic model or Nordic model of welfare capitalism often emphasize historical and institutional similarities of the Nordic countries. It still holds true that Nordic countries are among the most prosperous and equal societies in the world and despite recent reforms Nordic countries are still characterized by extensive welfare states and organized labor markets.<sup>11</sup> It is, however, often forgotten or neglected in these analyses that in Nordic countries such as Finland and Sweden, mass unemployment became a pervasive problem after the 1990s' depression. This chapter introduced Paltamo experiment, which was a local attempt to find a new model to deal with high regional unemployment.

The Paltamo experiment had similarities with JG literature's policy recommendations, because the emphasis was on finding the right job for the jobseeker, and employment was seen as the key question in improving health and well-being of unemployed individuals. The experiment should also be seen in the context of the Finnish ALMP policy, which emphasizes that public employment programs should be only temporary solutions for individuals. The Finnish ALMP debate hardly addresses the question of permanent mass unemployment, which has been the case in Finland since the early 1990s. When the employment opportunities outside the HAE were scarce, the situation offered the critics the chance to state that the experiment had been a mistake, and that public employment programs do not bring lasting returns.

The economic rationale for the experiment was built on the premise that it would be cheaper for the taxpayers to adopt a holistic employment-based approach, in contrast to prevailing "passive" systems of unemployment insurance. Proponents of the experiment emphasized that social exclusion and erosion of employability, especially among the young, becomes extremely expensive for the society in the long term. But reactions in the press concentrated on the short-term costs, and it was widely seen that the "human experiment" in Paltamo would be too expensive to be implemented at a national level. This reaction was by no means surprising, because despite the high level of taxation and extensive welfare state in international comparison, Finnish policy makers have only rarely endorsed counter-cyclical fiscal policy. When politically arguing for a public employment program or a JG scheme, it is important to include the long-term economic benefits in the calculations.



It is clear that the implementing of a larger-scale or a nation-wide public employment program would require a significant change in macroeconomic thinking in Finland. A nation-wide JG scheme would lead to higher fiscal deficits at least in the short term, but the orthodox “Treasury view” proclaiming the large “sustainability gap” of public finances is highly influential. The current government in Finland also claims that oversized welfare state crowds out private economic activity, and that the share of public sector should be smaller.<sup>12</sup> During the last and current electoral terms, Finnish governments have been ready to implement bigger public spending cuts than the EU Commission and Eurozone fiscal treaties would require. It should also be discussed whether a small and open Eurozone economy could move ahead with a nation-wide JG or a large public employment program on its own, or if this would require a wider change in the institutional set-up of the Eurozone and policy making in the EU.

## NOTES

1. In the end, *Bank of Finland* devalued *markka* currency in November 1991.
2. It has been rightly argued by Jukka Pekkarinen and Juhana Vartiainen (1993) that neoclassical synthesis Keynesianism and counter-cyclical fiscal policy were never really endorsed in Finnish economic policy making even during 1950s and 1960s when it was popular in many Western countries. There were, however, significant Keynesian elements supporting growth of investment demand in the Finnish growth model from the 1950s until the 1980s. State-owned enterprises and highly regulated financial system contributed to the high investment rate and rapid industrialization.
3. During the 1990s’ depression, rate of unemployment in Paltamo reached 25 percent, and it remained well above 15 percent throughout the 2000s (Hämäläinen and Hämäläinen 2012).
4. Kainuu is a peripheral region in northeastern Finland with around 80,000 inhabitants. There were 3917 inhabitants living in Paltamo by the end of 2009 (Oksman 2011).
5. The concept of open labor market refers to nonsubsidized labor market.
6. Huotari (2014, 11–12) writes that the other possibility was to build a wage model that would be based on compensation from different

job positions and tasks. The experiment's steering group, instead, chose the wage model based on work history and unemployment benefit levels, because it was believed to provide better work incentives.

7. The Finnish welfare state is often classified as “universalistic”, because municipalities have been in charge of providing universal welfare and health services for the whole population. Secondly, unemployed individuals, for example, are eligible to receive either basic unemployment allowance or labor market subsidy, and the national pension is a form of statutory basic security for the elderly. Social assistance is a last resort form of income security in Finland. On the other hand, there are various elements in the Finnish welfare model that are based on past and current employment status such as occupational healthcare, earnings-related pension and earnings-related unemployment benefits.
8. Former Minister of Social Affairs and Health Paula Risikko from the center-right National Coalition Party even stated in 2013 that Finland should “get rid of passive social security”.
9. In the 1950s, unemployed men were forced to go road and infrastructure building to other cities away from home, which was very unpopular and one of the reasons for the rise of the populist party *Suomen Maansuodun Puolue*.
10. This characteristic of the Finnish welfare state might change in the near future, because the current government is working on a grand social and health services reform.
11. See, for example, Freeman 2013.
12. The current Prime Minister of Finland, Juha Sipilä, and former Finance Minister Alexander Stubb have continuously stated that the public sector is too big, and that tax-to-GDP level is unsustainably high.

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