

Labour Administration Publication

**PREPARING
FOR THE LABOUR MARKET CHANGE CAUSED
BY THE BABY BOOM GENERATION**

The Final Report of the Project

MINISTRY OF LABOUR
Helsinki 2003

Purpose and Character of The Report

The Ministry of Labour launched on December 12, 2000 a cross-administrative project called “Preparing for the Labour Market Change Caused by the Baby Boom Generation”, which was added to the government project registry (no. TM001:00/2001).

The background of the project is linked to the implementation of item 4.1. “Raising the Rate of Employment” included in the project portfolio of Paavo Lipponen’s second government. The goal of the project was to prepare for the need of labour demand that will be created by the demographic change. To complete its mission, the project was to

- provide a overall view concerning the extent, timing and allocation of labour shortage in different branches, occupational groups and regions;
- examine and find the strategic policy alternatives as well as assess the need and scale of measures to alleviate the labour shortage problems, present assessments of the alternative measures needed and their costs to serve as the basis for the next government’s program;
- make all parties aware of the labour shortage problems that are threatening if no measures are taken, get the responsible organizations concerned to take the matter under preparation and bring it to various decision makers for their active solutions. For this purpose, the project team activated social discussion and preparation of proposed action in different fields of administration and other parties involved in the matter.

The project manager was Labour Market Counsellor Matti Sihto, the Ministry of Labour and the assistant project manager Ministerial Adviser Pekka Tiainen, the Ministry of Labour. Other members were Labour Market Counsellor Tuomo Alasoini, Senior Planning Officer Meri-Sisko Eskola, Labour Market Counsellor Marja Merimaa, Senior Officer Seppo Manninen, (until September 10, 2002 when he took leave of absence), Labour Market Counsellor Heikki Räsänen (until January 13, 2002 when he transferred to another position) and Senior Officer Kimmo Ruth of the Ministry of Labour, Planning Director Jouko Könnölä of the Ministry of Education, Senior Adviser for Finance Rolf Myhrman till December 31, 2002, and since January 1, 2002, Financial Secretary Lars Koltola of the Ministry of Social Affairs and Health, Research Manager Antti Romppanen of the Government Institute for Economic Research, Head Researcher Eila Tuominen of The Central Pension Security Institute, Ministerial Adviser Pentti Vesterinen and Ministerial Adviser Sinikka Wuolijoki of the Ministry of Finance, and Planning Manager Reijo Vuorento of The Association of Finnish Local and Regional Authorities. Special Secretary Kaija Koski of the Ministry of Labour functioned as the project secretary. Director Anssi Paasivirta of the Ministry of Labour supervised the project.

The interim report and draft for the final report were discussed in the management groups of The Ministry of Labour and its Policy Department, as well as the Minister’s cabinet. Cooperation with different administrative branches and the central labour market organizations was realized through the labour affairs council that consisted of leaders of the central labour market organizations, the entrepreneur organization and top leadership of relevant ministries, as well as the labour-political advisory committee that included labour market experts of the same parties. Both bodies discussed the final report of the project in its draft stage.

Network cooperation with experts of other administrative branches, institutions and practical working life and organizations was realized especially in the form of work seminars.

The interim report of the project was given to the Ministry of Labour on September 3, 2002 (Labour Administration Publication No. 290). The final report was turned in on February 10, 2003. It was published in the series Labour Administration Publication No. 320. This translation includes the analytical section of the report in its entirety. Some detailed, country-specific observations have been eliminated from the proposed action.

Helsinki April 19, 2003

Matti Sihto
Project Manager

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I THE SOLUTIONS FOR THE LABOUR SHORTAGE AND UNEMPLOYMENT PROBLEMS SUPPORT EACH OTHER

The situation regarding employment is double-edged. There are almost 300.000 unemployed job seekers and their number threatens to continue rising due to the poor international economic development. Notwithstanding, in the very near future labour shortage will start to become more common when the baby boom generation starts retiring.

This report concentrates on the point in time when the baby boom generation starts leaving the labour market and the problems regarding labour availability begin to culminate. On the one hand, this will be a critical period: labour shortage is going to become more acute, but there still exist vast labour reserves that can be activated.

However, interim problems and solutions must not be separated from long-term and short-term planning. It is not possible to solve labour shortage problems without regard to the effects it will have in the long run, for example on the development of birthrate and population.

On the other hand, the forthcoming labour shortage problems are tied to the short-term problems. The current large-scale unemployment is displacing people from the labour market and weakening their readiness to return. This will make the situation difficult when more jobs become available again. Considering the future labour shortage, it is essential that the current state of unemployment will not be allowed to weaken the employability of the unemployed.

Measures directed at decreasing unemployment do not necessarily alleviate the future shortage of labour force but may actually even exacerbate it. If labour-political reasons are used to tie up unemployed people in ineffective targets, the labour shortage will become even more acute. Solutions that are permanent by nature must be founded on other reasons than solely that of solving the immediate unemployment problems.

It may be difficult to combine short and long-term solutions in practice. Problems of labour shortage are not usually reacted on until they have become reality. Proactive measures are met by not only economic obstacles but also criticism arising from the relevant quarters. For example, active measures directed at the unemployed are not always considered meaningful, because they do not have immediate effects on the current labour market situation. Students do not consider it wise to graduate faster when the reason to delay graduation is the uncertain situation on the labour market.

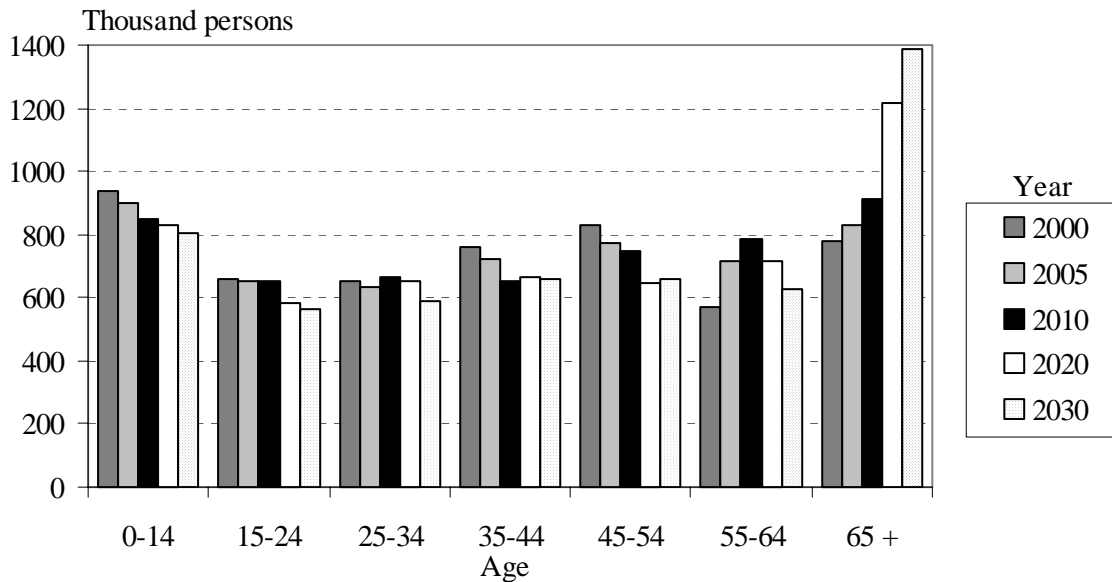
In the following chapters attempts are made on the one hand, to estimate the changes of the labour market that will be caused by the baby boom generation, i.e. decrease in the labour reserves, and on the other hand, to seek proactive solutions that would alleviate the problems regarding labour shortage.

II THE NEED FOR NEW LABOUR AND THE SUFFICIENCY OF LABOUR

1. Working-Age Population Is Getting Older and Decreasing in Quantity

So far, the labour reserves in Finland have been on the rise. In the future, they will start to decline. This will not lead to scarcity or shortage of labour, if economic development will be poor and the number of jobs decrease. However, it is justified to estimate that the labour market situation in the next decades will be characterized by labour shortage. This reasoning is based on the exceptionally big changes in the population development as is demonstrated in figure 1.

Figure 1. Population by age group in 2000, 2005, 2010, 2020 and 2030. Statistics Finland, Population Projection.



After 2010, only the number of people over the age 65 will increase, while the number of the younger population will decrease. The decrease will also affect the working-age population, those 15-64 years of age. This is totally unusual during peacetime.¹

The working-age population has increased rapidly during the entire postwar era (see figure 2). From 1945 to 2009, the increase is about one million people, which is equivalent to an increase of about 15.000 people a year on the average. The growth was at its highest in the 1960s (over 30.000 people a year), and since then it has steadily decreased and will amount to only a little over 5.000 people a year on the average during this decade.

From 2010 on, the working-age population will start to decrease. By 2030 it will have decreased by about 400.000 people, which is equivalent to a decrease of about 20.000 people a year. The decrease will be fastest in the 2010s reaching the rate of 30.000 people a year at its highest. The changes in the working-age population will be so large and so sudden that they will have a crucial impact on the entire functioning of the labour market.

¹ The presented changes in population are based on the newest population projection issued by Statistics Finland in the fall of 2001. The basic calculations in the projection are based on the assumption that the annual net immigration consists of 5.000 people. This will increase the population and also working-age population compared to previous projections.

Figure 1 also shows that problems concerning labour availability will start increasing already before the decline in the working-age population. Although the working-age population will still continue to grow during this decade, the growth will center on the age group of people over 55 (an increase of a little over 200.000 people). The number of younger working-age people will decrease (by about 200.000 people). The number of age groups that most actively participate in working life will decrease and the growth will center on the age groups within which leaving working life will be more common. This is illustrated by figure 3.

Figure 2. Working age population in 1945-2030. Statistics Finland, Population and Population Projection.

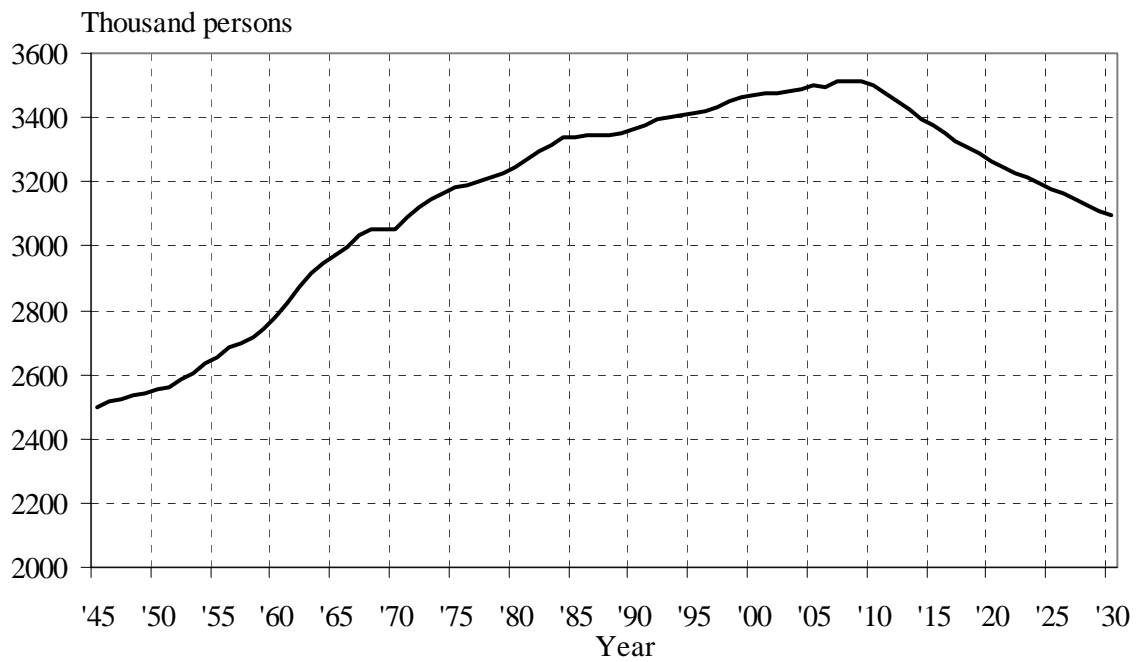
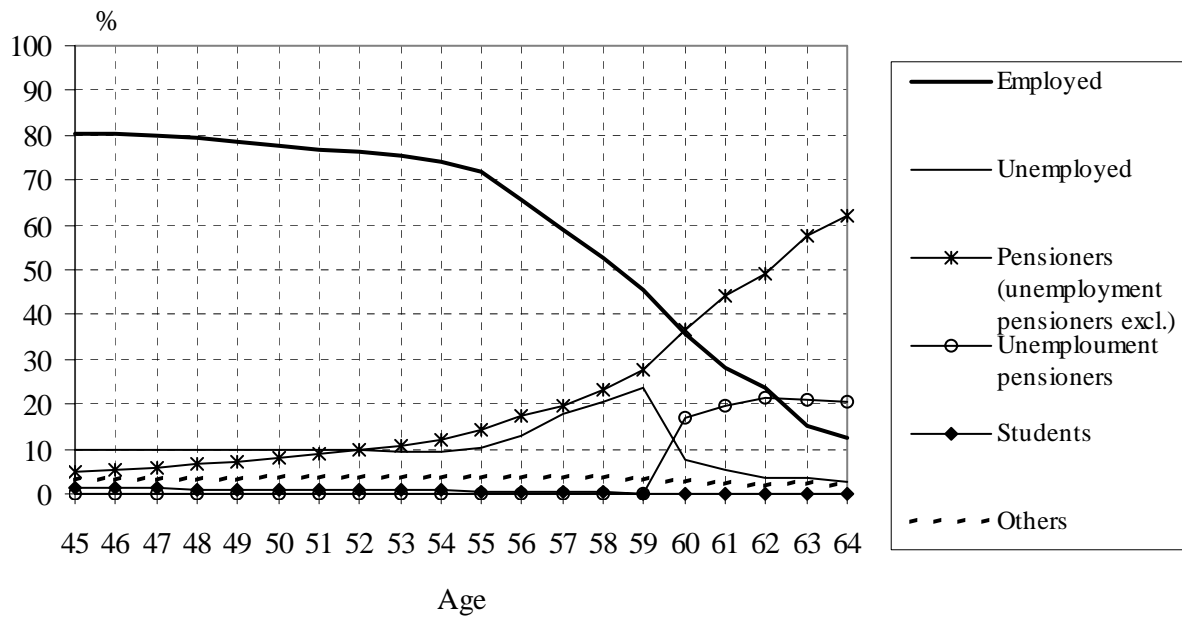


Figure 3. Principal activity of people 45-64 years old on 31 December, 2000. Statistics Finland, Regional Employment Statistics.



Only about 10% of the age group retires at the age of 65. The employment of older people is starting to decrease sharply already among those ten years younger. While about 15% of the 55-year-old people are retired, the portion is already 55% among the 60-year-old group. In addition, some 5% of those 55-60 years of age are in part-time retirement. The fact that unemployment has become a notable channel of leaving the labour force can be seen in the way unemployment has increased during the so-called unemployment pension pipeline (i.e. the period during which an unemployed person is entitled to additional days of unemployment compensation). About one fifth of those 60-64 years of age are actually drawing an unemployment pension.

The approximate retirement age in 2001 was 59.3 years. The age at which people left working life, including those in the “unemployment pension pipeline” drawing daily unemployment allowance, was about one year lower.²

The change in the age structure of the working-age people will lower the employment rate. If the employment rate would remain the same as it is today in the one-year-increment age groups, the employment rate of the 15-64 year-old people would drop to 2.7% from the current 67.7% by 2010. This is specifically caused by the fact that the number of people reaching the age of 55 will grow and their employment is remains low.

² Cf. Kansallisen ikäohjelman seurantaraportti 2002. Sosiaali- ja terveysministeriö, työministeriö. Sosiaali- ja terveysministeriön työryhmämuistioita 2002:15. [*The 2002 Follow-up Report on the National Age Programme*. Ministry of Social Affairs and Health, Ministry of Labour. Work group memo of the Ministry of Social Affairs and Health, 2002:15.]

2. People Leaving and Entering The Labour Market

Between the years 2000 and 2015 about one million people will leave the labour market through old-age pensions or other forms of retirement or death. That equals almost one-half of those employed in the year 2000. By 2010, some 600.000 people will leave working life, which equals to almost 30% of those employed in the year 2000.³

Figure 4. The employed broken down by age in different employer sectors on 30 December, 2000. Statistics Finland, Regional Employment Statistics.

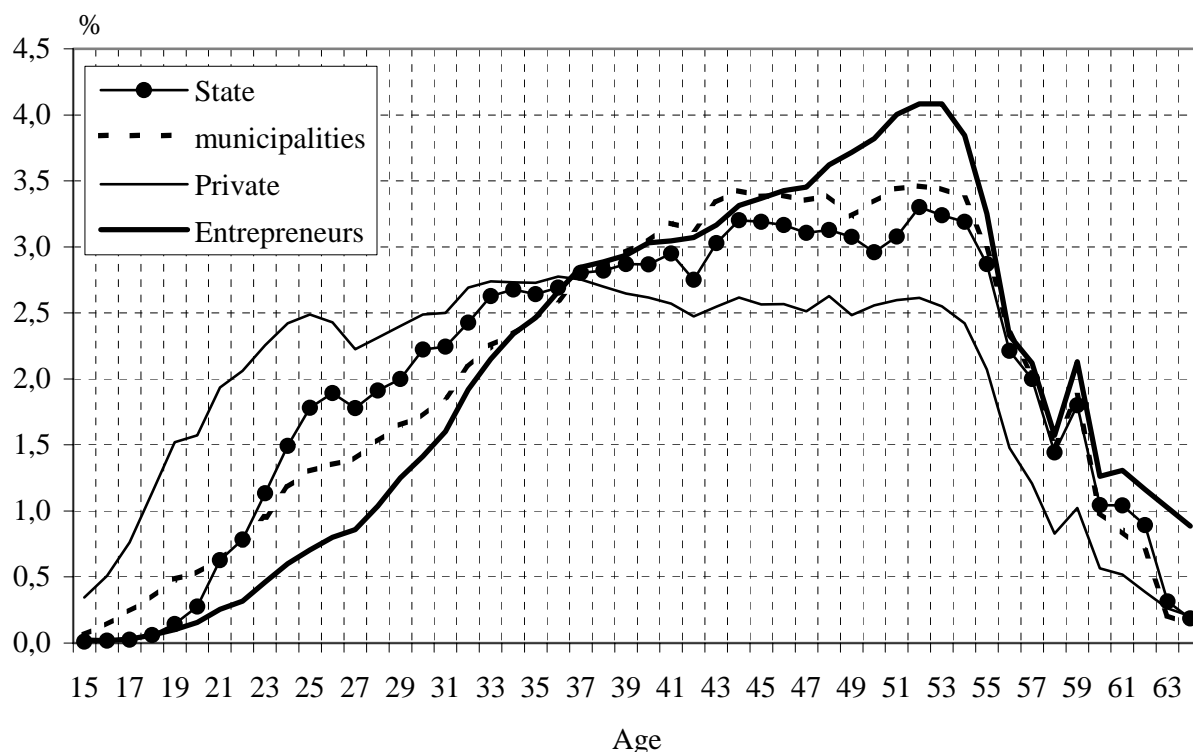


Figure 4 shows that aging concerns entrepreneurs the most. The large proportion of those aging includes among others agricultural entrepreneurs. The proportion of aging employees is more pronounced in the public sector.⁴ Especially in municipalities, and to a somewhat lesser extent in state jobs, employees are concentrated into the age-group 40-55 years, while the

³ Työvoima 2017 –raportti. [*Labour Force 2017 Report*, the data of which has been updated for this project to cover the time period from 2000 to 2005, 2010 and 2015.] Tiainen, Pekka, 2001.: Työpaikkoja avautuu suurten ikäluokkien poistuessa työelämästä. Työpoliittinen Aikakauskirja n:o 1, 2001. [‘Jobs Become Available When the Baby Boom Generation Retires from Working Life.’ *Finnish Labour Review No. 1/2001.*]

⁴ The staff of corporations of which the state is a majority owner has been included in the figures of the private sector.

Cf. Vuorento, Reijo (ed) (2001) Kuntien työvoima ja henkilöstö 2010. Suomen Kuntaliitto. 2002. [*Labour Force and Staff in Municipalities in 2010. Local and Regional Authorities (2002).*]. Toimenpideohjelma perusteluineen. Kuntien työvoima ja henkilöstö 2010. Helsinki. [The Association of Finnish Local and Regional Authorities, Helsinki. [The Association of Finnish *Program for Action, Including Substantiation. Labour Force and Staff in Municipalities in 2010*, Helsinki.]

Lehtonen, Veli-Matti (2002) Valtion budjettitalouden henkilöstön poistuma vanhuuseläkeiän saavuttamisen sekä muille eläkelajeille siirtymisten ja kuoleman takia vuosina 2000-2015 eli kokonaan työelämästä poistuvat. VM/HO, moniste (30.8.2002) [‘The State Budget Finances Regarding the Staff Leaving the Labour Force due to Attaining Old-age or Other Retirement Age or Death in 2000-2015, i.e. Those Leaving the Working Life for Good.’ VM/HO hand-out (30 August, 2002).]

employees in the private sector are distributed more evenly between different age groups. The proportions of those over 55 are about the same both in municipal and state sectors and clearly higher than in the private sector.

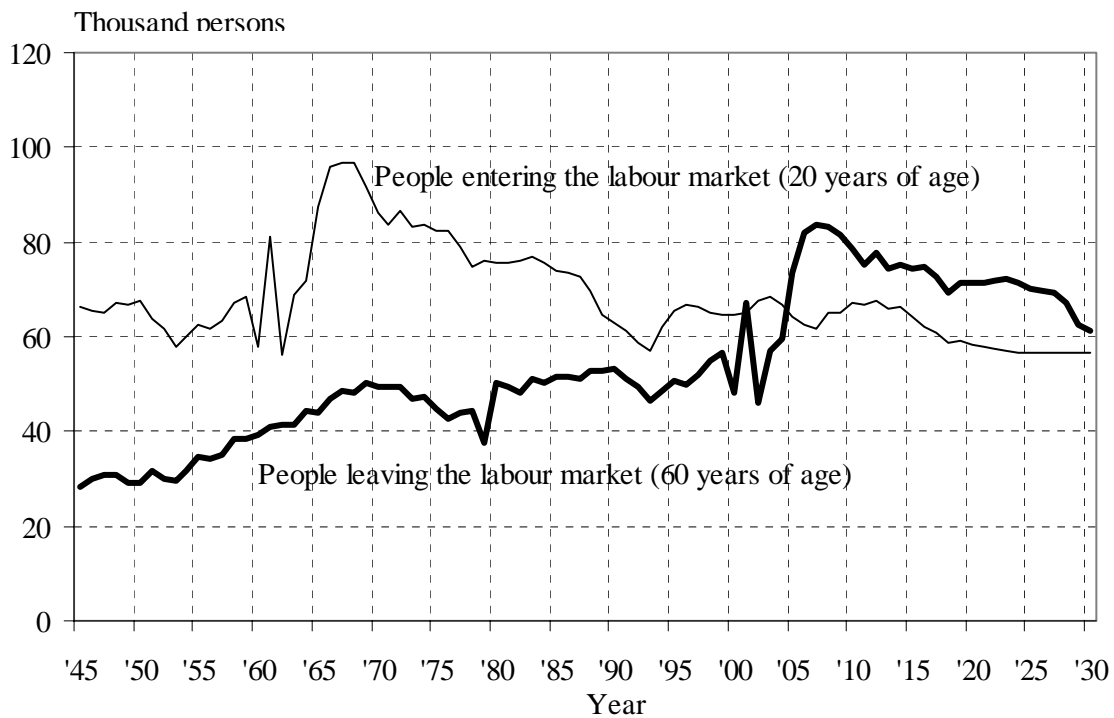
Entrepreneurs and employees in the public sector are older than employees in the private sector. Despite this fact, however, the absolute amount on aged employees is the greatest in the private sector since it is the biggest employer. Thus, at the end of the year 2000 there were almost 300.000 employees over 50 years of age in the private sector, less than half that amount in municipalities, less than 100.000 were entrepreneurs, and less than 50.000 worked for the state.

The labour force leaving the labour market is not a problem, if the labour force that is entering the labour market replaces it. Figure 5 shows the estimated development regarding the potential labour force entering and leaving the labour market, respectively. In reality, the numbers of those entering the labour market and those leaving it are spread over several age groups. In the demographic computation, the age of those entering the labour market has been set at 20 and those leaving it at 60, including roughly half of each age group in the labour force.

The amount of people in different age groups entering the labour market exceeded that of those leaving it in the postwar years until the 1980s by approximately a little over 30.000, in the 1980s by 20.000 and after that by over 10.000 annually. The situation will change completely around 2005, because the age groups entering the labour market will be smaller in size than those leaving it.

The age group leaving the labour market will be bigger than the one entering it halfway through this decade. The difference in size between the age groups will be approximately a little over 15.000 people towards the end of this decade. The excess will shrink to approximately a little over 10.000 people annually in the 2010s and 2020s. Our labour market will therefore have to adjust to the diminishing amount of labour for quite some time.

Figure 5. Changes in the potential labour supply in 1945-2030. Statistics Finland, Demographic Statistics, Demographic Projection.



In reality, however, the labour market changes will not be based on demographics. Thus the growth of labour market proportions and rates of employment in different age groups will cover some of the deep shortage at the end of the current decade. The demographic estimate in figure 5 takes this into consideration by assuming that the average age of those leaving the labour market will change from 58.5 years, which is the average at the beginning of this decade, to 60 years and those entering the labour market will enter it six months earlier than nowadays.

In the following the sufficiency of labour force is estimated directly through labour market changes. The projection is based on the update of the Labour Force 2017 estimate.⁵ The estimates in the Labour Force 2020 report completed in January 2003 are not essentially different from the data in the first-mentioned report. The impression conveyed by the examination of the changes in labour force resembles the results of the examination of demographic changes. While the number of those leaving the labour market will exceed that of those entering it by approximately a little over 10.000 people annually towards the end of this decade, the approximate annual overage will be a little fewer than 20.000 people in the following decade. The number of people is not significantly different from the previous examination based on the sizes of the age groups. The essential difference, however, is that according to the study based on labour force, leaving the labour market will happen most actively only at the beginning of the next decade, not at the end of the current one. The estimate is based on the assumption that the workers will react to the more prevalent labour shortage by participating more actively in working life.

⁵ See footnote 3.

3. Job Openings

When the Labour Force 2017 report was updated, changes in employment were also taken into consideration in addition to the loss of labour force, because the future need for labour also depends on the development of employment and not only on the loss. If the economy develops poorly, the need for new labour will lessen. Though the base track of economic growth used in the Labour Force 2017 projection presumes growth of employment, the significance of employment will be smaller than that of the loss.⁶ (The base track projects future development as an extension of current development, assuming no unexpected changes will occur.)

It is estimated that by 2010 the number of job openings (=change in employment + change in the loss of labour) will be a little fewer than 680.000 people. The projected importance of growth in employment is less than a tenth of the openings, a little over 60.000 people. In addition to the outlined base track of economic growth, faster and slower alternatives were also outlined, as well as target-oriented development. The target track projects the growth in employment to be 150.000 people in 2000-2010.

The update of the Labour Force 2017 projection does not show any noteworthy growth in employment towards the end of the current decade. This being the case, the job openings projected by the base track are caused by the loss of labour, not by development of employment. (According to the target track, growth in employment would be 15.000-20.000 people a year.) In the beginning of the next decade, employment will steadily decrease by a couple of thousand a year. (According to the target track, there would be growth amounting to fewer than 10.000 people a year.)

The base track of economic growth shows approximately close to 70.000 job openings a year during the current decade and approximately 70.000 a year in 2010-14. Growth in employment projected by the target track shows about 75.000 job openings during this decade and 83.000 in the first years of the next decade.

The projection already takes into consideration the impact of the forthcoming decline in labour force. Thus, the declining labour force explains why aged employees will stay in their jobs longer than now. This again causes that there is no reason to expect that leaving working life would happen most actively during this decade, as the demographic observation would suggest.

The Labour Force 2017 projection also takes the forthcoming decline in labour force into consideration in the scenarios concerning the development of employment. The number of those employed will develop slower than it would in a situation where the labour resources would not form any obstacles to economic activity. The number of the employed is not going to grow at the end of this decade and it will even go down in the beginning of the 2010s because of the labour shortage. The decline in the number of the employed is partly due to accelerated growth in productivity and partly to slower economic growth.

⁶ Due to delays in publishing the results of the census, it has not been possible to draft a new projection regarding job openings. The following will be a presentation of the most essential results regarding job openings, which was already included in the intermediate report. No crucial changes are to be expected.

Figure 6. The development of employment and loss in 2000-2005, 2005-2010 and 2010-2015 (per 1000 people). The update of Labour Force 2017.⁷

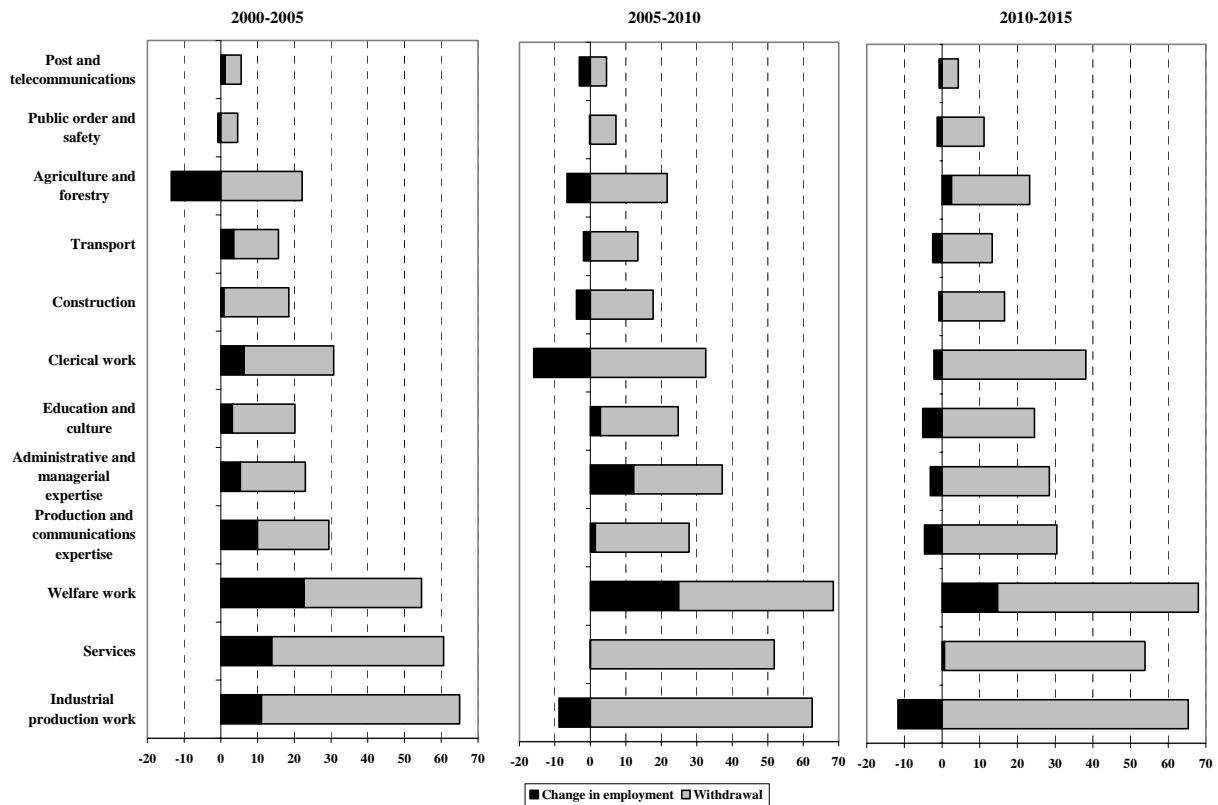


Figure 6 presents job openings by occupational category in 2000-2015. The need for new labour varies between 40-65% by category. The need is greatest in construction and nursing (64% of the year 2000 labour), as well as services (48%) and industry (46%). The need for labour in nursing and services is increased by both growth in employment and the loss of labour. Employment will decrease in construction and industry, but greater loss will create need for new labour. The focus of the need for labour remains the same in the beginning of the next decade as it is during the current one. Besides the loss of labour and development of employment, the recruiting needs for new labour is enhanced by the turnover in current jobs.

Need for new labour will be imminent in

- occupations requiring special skills, in which the demand for labour will increase
- the occupational groups of nursing and services, in which increased demand and loss together create demand for new labour, as well as in
- productional occupations such as construction and industry, in which the demand for labour will decrease but the loss also will be heavy.

⁷ See footnote 3.

4. The Need For New Labour and the New Labour Entering The Labour Market

The new labour supply entering the labour market amounts to an estimated 55-60.000 people a year (at first the higher end applies and at the end of the decade the lower end).

- Due to the loss of labour and the development of employment, the need for new labour will exceed the number of those entering the labour market by more than 10.000 people at the end of the current decade (according to the target track by over 25.000) and by 15.000 people in the beginning of the next decade (according to the target track by a little fewer than 30.000). From then on, the overage will become smaller. The next thirty years are going to be a time period during which our current labour reserves will decrease.

It is to be noted that the previous scenarios already take into account the impacts the declining labour force will have on the labour market and economy. The labour shortage is expected to, on the one hand, increase participation in working life and, on the other hand, decrease the true rate of employment. Without these changes, the difference between the need for new labour and the new labour entering the labour market would be even greater than what has been presented above (over 10.000 people towards the end of this decade and over 15.000 people a year in the first years of the next decade).

The significance of the change in employment is rather small compared to the loss and because of this, there will also be considerable need for labour in occupations in which the number of the employed will decrease. There will be job openings in all occupations, even in performance work. The need for labour, however, will vary by occupation. In relation to the number of those employed in the year 2000, the need for new labour will be greatest (over 40%) in construction and nursing over the next ten years. If we measure by the number of staff, the need for new labour is greatest in nursing, but it is also great in industrial work and services (roughly over 100.000 people in each).

5. The Need For New Labour And The Labour Reserves

5.1. The Labour Reserves and The Potentially Employable

The decrease in the working-age population will not become a problem, if there is labour force readily available in the labour reserves to fill the job openings. Figure 7 presents the greatest possible potentials to increase or utilize the domestic labour reserves. In addition, immigration can replenish the labour reserves.

The unused labour reserves consist first of all of unemployed job seekers. Their proportion of the working-age population was 8.5% in 2001, that is, on the average approximately 290.000 people a year. The mere labour reserve of the unemployed can cover quantitatively the insufficiency of new labour for several years in regard to labour needs. There also exists an even greater labour reserve in numbers, namely, the economically inactive.

One of the biggest groups of the economically inactive consists of different types of pensioners. The most common reason to retire has been disability. Students form another big economically inactive group. Thus, it is not easy to activate the economically inactive, nor is

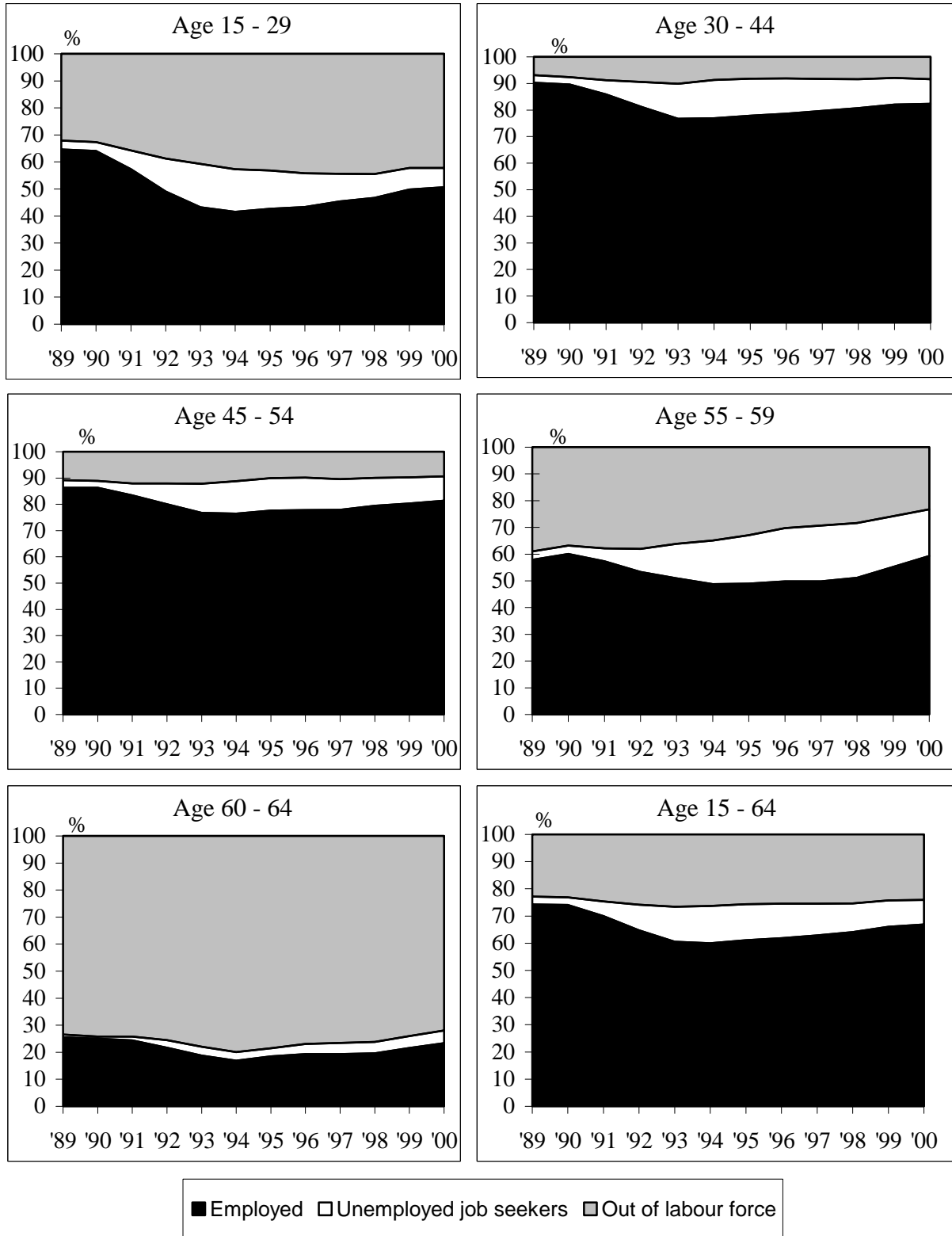
it always reasonable. Though it is considerably less problematic for the unemployed to participate in working life, there are certain problems in promoting the participation: some unemployed are in the so-called unemployment pipeline waiting to go on unemployment pension, some have been unemployed for years and so on.

The magnitude of the labour force that can be drawn from the unemployed group and the labour reserves can be estimated based on the maximum number of the employed that has been realized earlier. Parkkinen has compared the current and post-1970 highest rates of employment by age group. The result was that the potential labour reserve of those 15-74 years old would amount to about a half a million people, in other words, one fifth of the number of those employed.⁸ These estimates may naturally be criticized for the reason that the labour market of the past decades was different from the current one. Especially for young people, the levels of employment experienced in the past decades cannot be realized again, nor would there be reason to do so. The highest post-1970 rates of employment of those 15-19 years old were almost 50%, whereas today they are about 20% (see the above reference). However, the former high rates of employment of aged people are still today a reality in many Nordic countries.⁹

⁸ Parkkinen, Pekka (2000) Suomen runsaat työllisyysreservit. Työpoliittinen aikakauskirja n:9 2/2000. [‘Finland’s Substantial Labour Reserves.’ *Finnish Labour Review* No. 2/2000.]

⁹ Kansallisen Ikäohjelman seurantaraportti 2002. Sosiaali- ja terveystieteiden ministeriö, työministeriö. STM:n työryhmämuiot 2002:15. [*The 2002 Follow-up Report on the National Age Programme*. Ministry of Social Affairs and Health, Ministry of Labour. Work group memo of the Ministry of Social Affairs and Health 2002:15.]

Figure 7. The proportion of the employed, the unemployed and the economically inactive of the population by age group in 1989-2002. Employment Service Statistics and Labour Force Survey.



Parkkinen has made corresponding computations based on the maximum rates of employment in 1980-2001. According to these rates of employment, the total number of the

employed would be over 300.000 greater than their current number.¹⁰ If the current rate of employment in Norway, which is about 10% higher than the current rate of employment in Finland, would be realized in Finland, the number of employed people aged 15-64 would be almost 350.000 higher than today.

If the rate of employment Finland had in the pre-recession boom year of 1989 were realized again, the number of those employed would be 220.000 higher than today.

It is quite a demanding task to realize the above-presented estimates when it comes to the potentially employable. Realizing the 74% rate of employment in 1989 also marked huge disturbances in the labour market. It would be just as demanding to reach the potential rates of employment as it would be to maintain them. It would require, among other things, developing the functionality of the labour market.

It takes time to transform the potentially employable to the actually employed. In time, the rate of employment of the working-age population and the number of those employed will decrease, because the baby boomers of the current population will move to the groups with lower rates of employment. Even if the 1989 rates of employment were reached in different age groups, the rate of employment of the working-age population in 2010 would not be the same 74% like in 1989 but 72%. Here lies the difficulty in activating the labour reserves.

Examining the number of the potentially employable shows that the sufficiency of the labour reserves will not be a problem quantitatively. The problem lies in the qualitative mismatch of the labour demand and supply. This is also revealed by the development of problems in recruiting and regarding labour shortage. They started to accumulate especially in the year 2000.¹¹ At that time, employment grew sharply, but the working-age population also kept growing. There still also were plenty of unemployed people. The labour market of the end of the current decade will, however, be different from the development up to now.

5.2. The Nature of The Availability of Labour Will Change

Traditionally it has been a case of considerably more new labour entering the labour market than has been leaving it. The new labour has come fresh from school with occupational skills and there has generally been enough labour regardless the line of business. This scenario will change totally. The current labour force and labour reserves will be needed more and more to fill the future job openings.

Part of the labour reserves can be employed without additional measures. Those partially employed, such as people working part-time due to no full-time jobs being available, can be placed with minimal problems. For the majority of those employed, participating in working life longer than before may be only a matter of flexibility or will need only very few arrangements.

What will be difficult will be getting the actual labour reserves, i.e. the economically inactive, quickly on the labour market (for example, retired people), and it will not always be appropriate (for example, students). It is, however, possible to increase the supply of labour

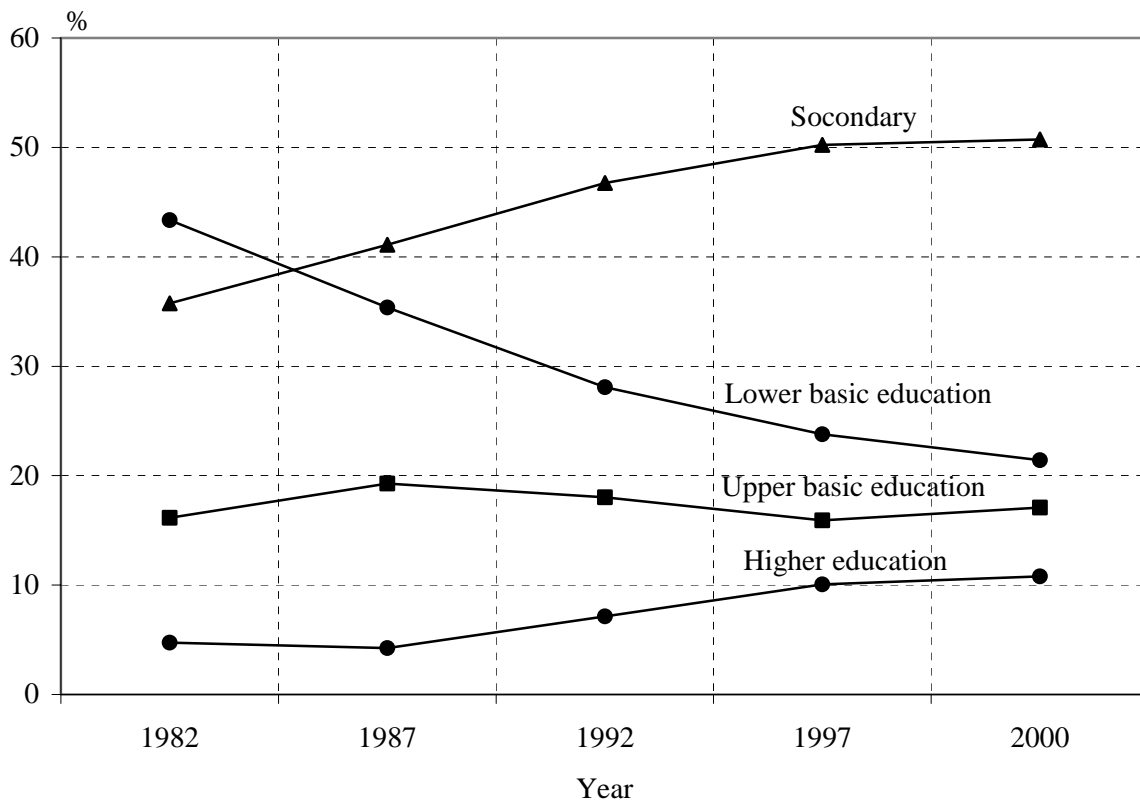
¹⁰ Parkkinen, Pekka (2002) Työvoima 2020. Työpoliittinen aikakauskirja N:o 2/2002. ['Labour Force 2020.' *Finnish Labour Review No. 2/2002.*]

¹¹ Räisänen, Heikki and Tuomaala, Mika (2001) Lyhyen aikavälin rekrytointiongelmat – eli miksi toisia työpaikka on vaikeampi täyttää kuin toisia? Työpoliittinen aikakauskirja N:o 1/2001. ['Short-term Problems in Recruiting – Why Some Vacancies Are Harder to Fill than Others?' *Finnish Labour Review No. 1/2001.*]

from the labour reserves in the interim for example, by making studying more efficient, and to do even more so in the long term especially by deferring actual retirement to a later date or increasing the work effort of retired people.

In the short term, the unemployed form a central group that can be placed in vacancies with less difficulty than the economically inactive. Some of the unemployed can move onto the labour market immediately without a hitch. The growing labour shortage will broaden this group, as the recruiting criteria of enterprises will loosen up. The skill and educational levels of the unemployed have also continued improving. Particularly when the baby boom generation retires, there will be considerably less unemployed people with a mere primary school background. However, improvement in the educational background of the unemployed has slowed down remarkably towards the end of the 1990s, as can be seen in the following figure.

Figure 8. The division of unemployed job seekers by level of education in 1982, 1987, 1992, 1997 and 2000. Ministry of Labour, The Annual Statistics of the Employment Service Statistics.



Since 1997 only the decrease in the proportion of those with lower basic education has been as fast as it was at the beginning of the 1990s. (It has to be noted that the last observation period, 1997-2000, is shorter than the other periods.) The decrease in the proportion of those with only primary schooling has been distributed among the other three educational backgrounds. The proportion of those with an upper basic education has started growing and the growth has been faster than that of those with intermediate grade or higher-grade degrees.

Many unemployed people require different levels of support, guidance and training to be placed in vacancies. Some unemployed job seekers cannot get onto the labour market despite support measures but require further steps. The unemployed group is “stiff” in the sense that

not all can be placed in vacancies immediately. Jobs, however, need to be filled without delay. If this is not done, there will be a labour shortage.

Labour shortage can lead to not only various disturbances on the labour market, such as increased raises or accelerated inflation, but also to situations in which a job will not be created at all or jobs will be created abroad.¹² The insufficiency of labour will place a maximum limit to economic growth. Therefore, the problems with the availability of labour caused by the aging population has been estimated to lead to a slower growth of economy and standard of living in the developed industrialized countries.¹³ The following maps out the action entities that could prevent labour shortage.

III OPTIONS TO ACTIVATE AND INCREASE THE LABOUR RESOURCES

1. Starting Points

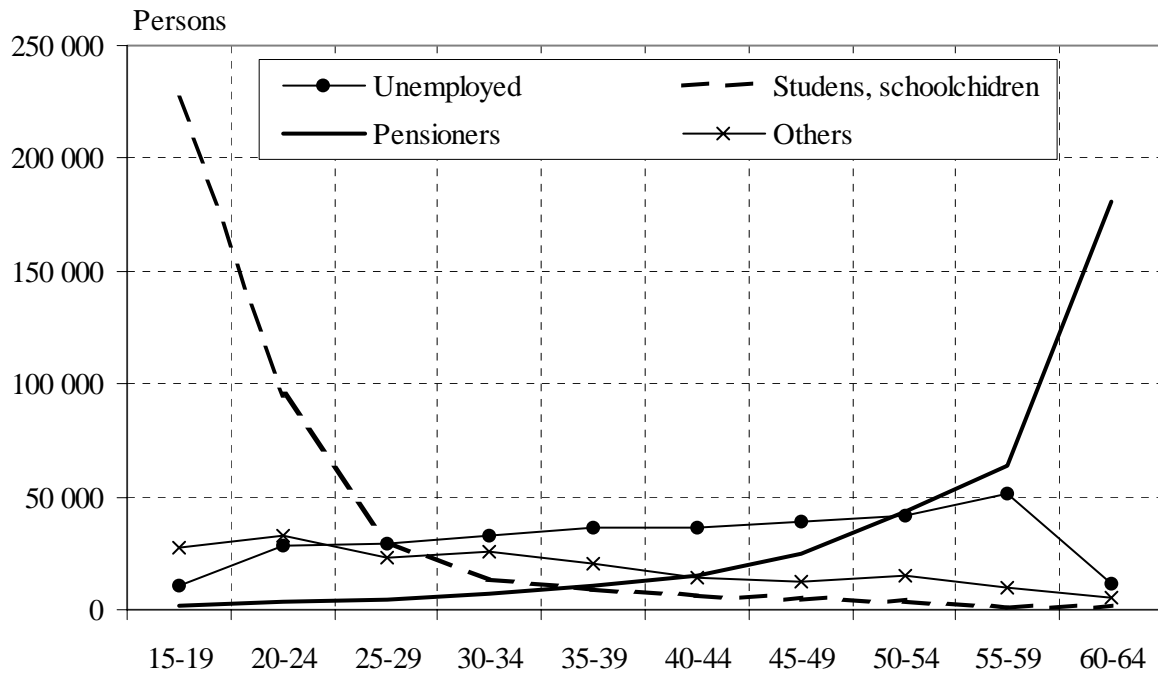
The largest group among the non-employed working-age (15-64 years of age) population is schoolchildren and students. There were 390.000 of them at the end of the year 2000. As the next figure shows, almost two thirds of them are under 20 years old. The next biggest group is the pensioners, 350.000 people. These are people who have retired on a pension before the normal retirement age of 65 years. The third biggest group is the unemployed job seekers of which there were 320.000 at the end of the year 2000. The group “others” consists of about 200.000 people. One tenth of them are conscripts. It is not possible to draw a better conception of the group “others” based on the employment statistics. Homemakers taking care of their children or relatives form a central group within this group.¹⁴

¹² One detailed report on labour shortage and the ways of determining and measuring it is Marja Toivonen's research-study 'Työvoimapula yhteiskunnallisena ongelmana. Uudenmaan työvoimapulan laajuudesta 1980-luvulla. Työpoliittinen tutkimus N:o 12. Työministeriö 1991. Helsinki. ['Labour Shortage as a Social Problem. The Breadth of Labour Shortage in Uusimaa in the 1980s.' *Labour Policy Studies No. 12* Ministry of Labour (1991) Helsinki.]

¹³ E.g. Center for Strategic and International Studies, 'The Challenge of Global Aging,' www.csis.org

¹⁴ Hanna Hämäläinen has compiled an account based on labour force surveys called 'Työvoimareservit ja niiden rakenne Suomessa v. 2000. Tilastokeskus. Katsauksia 2002/1. ['The Labour Reserves and Their Structure in Finland in 2000.' *Statistics Finland Reviews 2002/1.*] The classifications used in the labour force studies are so different from those utilized in employment statistics that their parallel use is problematic.

Figure 9. The not employed working-age (15-64 years of age) population according to their principal activity by age group on 31 December 2000. Statistics Finland, Regional Employment Statistics.



The following concentrates on discussing how to increase the labour supply and activate the labour reserves to prevent the future labour shortage.¹⁵ The task is difficult, because it is not only a question of how to activate the labour reserves, but what is also important is to have the labour reserves at hand when jobs become available. It is therefore important to take active measures already beforehand and not only when problems arise. Two central conclusions can be drawn based on figure 9:

- To prevent the labour shortage, we need to suppress the numbers of working-age people unnecessarily leaving employment and improve the unemployed people's capabilities and readiness for work.
- The most effective way to meet the problems of labour availability is to get the domestic labour reserves to the job market quickly. In addition to this, we also need to increase work-based immigration.

2. Employing The Unemployed To The Labour Market

2.1. The Unemployed Are A Central Unused Labour Reserve

Though the Finnish labour market is characterized by increased flexibility in many respects, the functionality of the labour market has weakened in Finland over the past few decades like

¹⁵ The project is linked to the Nordic Council's 'Job Supply in the Nordic Countries' programme and its concretization, the OECD's 'Maintaining Prosperity in an Ageing Society' programme and the EU's concrete projects, especially the 'A Community Immigration Policy' project. The International Monetary Fund has also dealt with preparing for the demographic change in its assessments regarding Finland in June 2001.

elsewhere in Europe.¹⁶ Unemployment has increased, but filling vacancies has not become correspondingly easier. Some of the unemployed have not in fact been at the disposal of the labour market anymore. As for Finland, the situation has been more difficult due to the vast imbalance between the labour demand and supply that is a direct consequence of the past decade's recession, and it has led among other things to prolonged unemployment.

The poor labour market functionality has restricted the latitude of the economic policies that support employment in many EU countries. The improvement of labour market functionality will get a whole new meaning and importance in the future, because the availability of labour will depend on the functionality. This again will affect the extent of economic growth possible. Finland will be among the first EU countries to face this challenge, because the Finnish baby boom generation is the largest in the EU countries. In other countries the age groups kept on growing until the mid-1960s, whereas in Finland the growth was at its highest in the end of the 1940s.¹⁷

What gets especially emphasized in the labour market functionality is the importance of the employability of the unemployed. The main problem in the future will no longer be the sufficiency of vacancies but rather, the readiness and capability of the unemployed to be placed in those jobs. Improving employability of the unemployed has traditionally been a task for labour policy.

In Finland, the activation level of labour policy is the second lowest among the EU countries (activation level = those engaged in active measures x 100 / those engaged in active measures + unemployed jobseekers).¹⁸ To ensure sufficient labour reserves, the activation level must be raised.

According to the evaluation studies, improving the quality of labour policy, for example enhancing the efficiency of measures directed at those not easily employable, takes on the one hand, more individualized measures and action plans and, on the other hand, more personal customer service, guidance, encouragement and motivation on the part of the employment service counsellors.¹⁹

- For the unemployed to be faster and better placed in vacancies, their capabilities and readiness for work must be improved.
- To improve the employability of the unemployed, the quality of the labour political measures must be improved and the activation level of labour policy has to be increased from the current 20% closer to 40%, which corresponds the level of the countries that have been most successful in their labour policies.

Labour shortage problems have become somewhat more common, but the labour market is still first and foremost characterized by large-scale unemployment. The uncertain international economic development may even increase unemployment. However, the

¹⁶ E.g. Layard, R., Nickell, S., Jackman, R. (1991) *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford University Press, Oxford.

¹⁷ Parkkinen, Pekka (2001) 'Care Expenditure Bomb Can Still Be a Myth.' Statistics Finland. *Economic Trends* 6/2001.

¹⁸ Palm, Jarmo. Työvoimapolitiikan vertailua eräissä EU-maissa. Työministeriö, ST-tiimi. Julkaisematon muistio. 2002. ['Comparison of Labour Policies Between Some EU Countries.' (2002) Ministry of Labour, ST Team. Unpublished memorandum.]

¹⁹ E.g. Martin, J. (2000) *What Works among Active Labour Market Policies: Evidence from OECD Countries' Experiences. In Organisation for Economic Co-operation and Development, European Commission, Government of Finland, Policies towards Full Employment*, OECD, Paris.

situation in Finland will be different from many countries in the respect that the growth in the labour supply will run dry. In this situation it can be expected that the demand for the unemployed labour will start increasing in a few years.

- Preventing the growth of unemployment is a central measure in fighting the future labour shortage. It can be done ultimately through labour-political measures.
- It is important to see to that the labour market readiness of those who have become unemployed will not deteriorate while they are unemployed. The period of unemployment must be used for further improvement of the labour market readiness. The improvement of basic occupational skills and all-around education will also require long-term action.

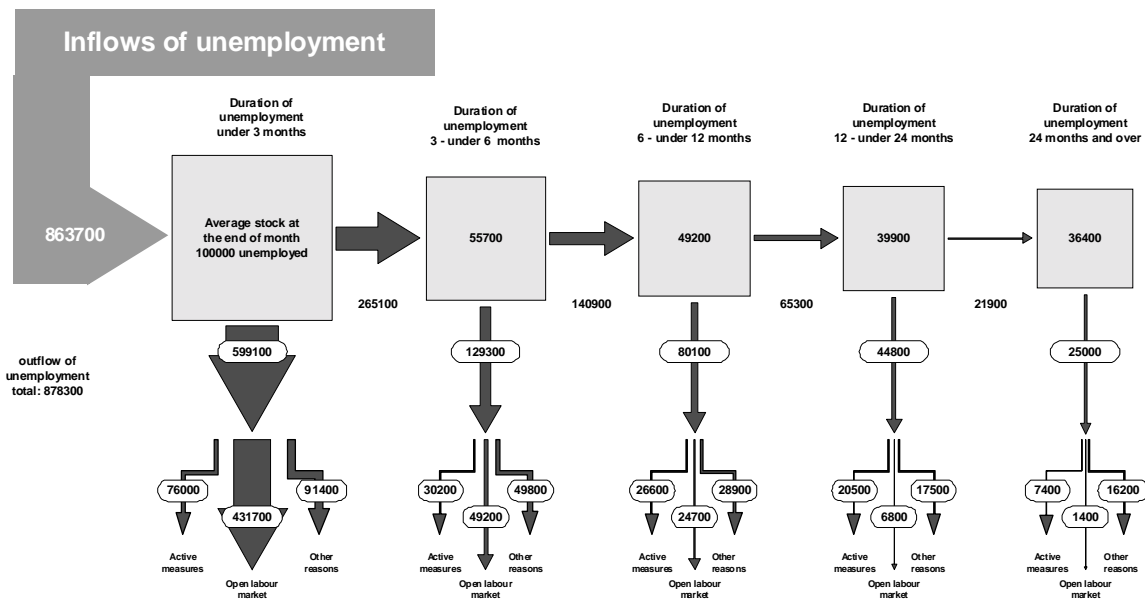
To prevent the labour shortage from happening, it is essential to improve the forecasting of the labour and skill needs. Forecasting is necessary to secure enough time for the measures to develop the employability of the unemployed and also to steer the education and training to match the labour demand. The problems in forecasting can also lead to difficulties in trying to enter working life after secondary vocational education. A motion on the matter was drafted in the end of 2002.

In addition to improving the forecasting on the long term, it is also necessary to improve the employment service agencies' short-term forecasting, sensitivity to the tendencies in the development of the local labour market and good practical feel for the development of the local labour market. The past decade's economic recession and the resulting increased unemployment have weakened the practices in establishing employer contacts that used to be effective before the recession. Employment service agencies have since developed employer services and gotten into closer contact with employers, and it is advisable to continue this development.

Because of the forthcoming labour shortage, people who are less easily employable must become more employable and be available more than before. However, this must not prevent enhancing the measures directed at people who have been unemployed only for a short time.

Figure 10 establishes how heterogeneous a group the unemployed are. There are almost 900.000 unemployment periods that began in 2001. (One unemployed person can have more than one unemployment period begun within the same year.) Two thirds or about 600.000 of these periods end within three months. As unemployment is prolonged, the probability to remain unemployed will increase. Long-term unemployment usually also ends for a different reason than short-term unemployment. Unemployment periods of less than three months most often end in placement on the open labour market (over 400.000 placements). Almost 75.000 will be placed in labour-political measures, for example labour training, and over 90.000 unemployment periods end for other reasons. Unemployment of those who have been unemployed continuously for over six months usually ends either in participation in active labour-political measures or for other reasons, for example retiring on a pension. The figure also shows the average number of the unemployed by length of the unemployment period. In 2001, there were around 100.000 people who had been unemployed for less than three months and a little over 80.000 long-term unemployed people (unemployed consecutively for over a year).

Figure 10. Flow to unemployment periods of different lengths and out of unemployment in 2001.



2.2. The Short-term Unemployed

The policy directed at the short-term unemployed aims at faster and more efficient placement, for example, by improving the success rate of job choices to avoid unnecessary chancing of jobs. Another important goal is to prevent prolonged unemployment.

Making the policy directed at the short-term unemployed more efficient calls for, among other things, increasing the use of electronic services and improving the regional labour market analyses and forecasts as well as employer contacts. Most important, however, is to increase the activity of the job seeker himself. Two out of three unemployment periods end within the first three months of unemployment and added efficiency can shorten even these periods.

One third of the periods nevertheless continue for over three months, after which ending the unemployment becomes sharply more unlikely. Preventing the unnecessary prolonging of the periods of job seeking would require that the employment service counsellors could intervene as early as possible in the improvement of the employability. Some clients need support and guidance already at the beginning of their job search. Independent initiative must not become a form of automation that makes some clients drift outside the services. On the other hand, there is a danger that many employable will be drawn unnecessarily into the measures. The task of an employment service counsellor is demanding. The preliminary interviews of the unemployed need improvement so that they render possible fast and appropriate interventions that lead to the improvement of the employability of the clients.

An individual plan for job search needs to be created at the latest when the unemployment has lasted consecutively for five months, unless doing so is seemingly unnecessary. Since the probability of ending the unemployment decreases sharply already after three months, there would be grounds to create a plan for job search at the latest when unemployment has lasted for three months.

What is even more important to develop than the number and creation of plans for job search is their quality, how concrete and realistic they are, and it is also important to make them

more binding. The plans for job search should not only offer the job seekers services to end their unemployment but also impose on them duties to improve their labour market readiness and to look for jobs.

- Increasing the efficiency of the labour policy directed at the short-term unemployed does not call for any new policy alignments.
- Securing labour sufficiency, however, stresses an increase in the efficiency of employment services and job search from the very beginning of the unemployment. Therefore, it is crucial to start using first-rate electronic services on a larger scale. Part of the job seekers still need to be provided the support and guidance they require.
- The best way to prevent prolonged unemployment is early intervention. To ensure time is not unnecessarily wasted serving those who can be placed quickly, the preliminary interviews need to be developed further. It would be advisable to utilize the expertise of career choice psychologists.
- The plans for job search need to be made more concrete and the job seekers rights and duties clearer. The binding aspects of the plans also need to be improved so that both the employment service counsellor and the job seeker better adhere to realizing the plan.

2.3. People with Difficulty in Getting Jobs

Dismantling structural unemployment is a difficult problem that touches many sectors of the society. The “Preparing for the Labour Market Change Brought About by the Baby Boom Generation” project is not trying to come up with an all-around presentation of how to solve the problem of structural unemployment. This calls for measures regarding both labour demand and supply, such as evaluations on how far some unemployed people really are from the open labour market. The Ministry of Labour has therefore launched a separate project that deals with the dismantling of structural unemployment, as the project suggested at the start-up of its’ activity.

When the question of those who have difficulty in getting jobs is considered from the point of view of labour availability, it derives a whole new meaning. Labour shortage will lead to a change in the policy directed at people who cannot easily be placed in jobs. Instead of trying to end their unemployment, the objective of the policy will be to figure out how to utilize their work effort in working life, in other words, how they could be placed on the open job market.

The project has evaluated three central groups of people who are not easily employable from the point of view of labour availability. The labour market readiness of the unemployed in these groups varies greatly individually. People who belong in these groups have the same problems as other unemployed people who cannot easily find jobs, for example lack of occupational skills. The following classification concentrates on evaluating group-specific factors. Is it possible for people in these groups to be employed when labour shortage becomes more common or will there still exist structural obstacles preventing their employment? The analysis will also attempt to provide an idea of what level of action is required to place these groups in jobs.

This presentation is based on studies, as well as domestic and international experience and work seminars arranged by the project. The latter also have expert representatives from the groups that have difficulty in getting jobs.

The three most important groups of those who have difficulty in getting jobs are people with disabilities, the elderly and immigrants.

People with Disabilities

13% (40,500) of the unemployed were people with disabilities in 2001. Their number has grown over 10% since 1997, while the total number of the unemployed has decreased by more than one fourth. The numbers of people belonging in many groups of those who have difficulty in getting jobs, e.g. the long-term unemployed and repeatedly unemployed, have decreased even faster than overall unemployment.

Active measures of the labour administration are directed far less at job seekers with disabilities than others. However, the difference is not big enough to explain their poor employment development. Over 77.000 unemployment periods of job seekers with disabilities ended in 2001. Two thirds of them ended either in employment or training, which shows that a more permanent placement in working life has been difficult for people with disabilities.

The employment of job seekers with disabilities is complicated especially by the following two factors that are characteristic of their situation.

Many employers consider that people with disabilities have a higher probability of becoming permanently incapable of working than employees in general. This is understandable since someone with a disability has already been diagnosed with impaired ability to work. The threat of permanent disability is a significant economic risk for employers.

Enterprises with less than 50 employees are collectively responsible for the costs of employees' permanent disabilities. Large employers pay according to the size of the company their individually determined share of the costs so that a company with over 800 employees pays 80% of the costs of permanent disability.

- An evaluation must be made regarding the possibilities to abolish the liability of large employers for disability pension when they employ a job seeker with disabilities.

Another factor is that the work effort of people with disabilities does not always correspond to the wages determined in collective bargaining agreements due to the lower productivity of their work. This has led to their unemployment. The deficiency in productivity has been corrected with training that improves their productivity and various technical aids. Where this is not possible, allowing work at lower gross wages or subsidising the employer could compensate for the discrepancy. These two solutions are not mutually exclusive.

There are many problems in enabling work at lower than current wages. There are also problems in using wage subsidies. It has been established that subsidies lead to a distortion in

the mutual competition of businesses. However, if subsidization is directed at correcting low productivity, no crucial distortion can be detected.²⁰

- Those people with disabilities, whose work effort does not correspond to the wage levels of the agreements, need to be allowed to participate in working life by granting the employers subsidies to compensate for the lower productivity.
- Wage subsidies have to be constructed so that they encourage both the employer and the employee to abolish the deficit in productivity. If it is not possible to do the latter, a permanent subsidy may have to be considered.
- To ensure that the wage subsidies would really compensate for the lower productivity in relation to the wage levels, procedures must be developed to measure the productivity levels without unnecessary bureaucracy.

Such methods of diagnostics have already been developed for example in The Netherlands, Sweden and Japan. In Great Britain an auditing community by order of the government oversees the diagnostics.

New solutions have been developed in recent years to facilitate the employment of people with disabilities. In many cases working on the open labour market does not require any special arrangements. Supported employment in its various forms could be an essential way in supporting employment on the open labour market. The slightest form of supported services could be an agreed contact person at the workplace who would guide and help the person with a disability if and when needed. The other extreme would be intensive support like in Sweden and Great Britain.²¹ The idea of the so-called social enterprises looks quite promising. They can vary greatly by nature. In the extreme cases they could offer sheltered work for people with severe disabilities. As these different solutions are being developed, the following is extremely important from the point of view of labour availability.

- The first and foremost objective for the placement of people with disabilities in working life must be their placement on the open labour market.
- Some people with disabilities will not be able to be placed on the open labour market right away. Incentives need to be developed so that these jobs will lead to placement on the open labour market. Some people with disabilities, however, will need sheltered working conditions on a permanent basis. The heterogeneous nature of the disabled group calls for various alternative solutions for their employment.

The Unemployed Elderly

The unemployment of the elderly aged 55-64 is considerably more common and lasts longer than that of the young. A contributing reason is the so-called unemployment pipeline and the tendency of the unemployed to head for retirement. The chances of employment for the unemployed elderly who actively strive for employment have remained rather slim.

²⁰ E.G. Hietala, Kari (2002) 'Cost Effectiveness of Active Labour Market Measures.' In the book *Impacts of the EES. National evaluation of the effects of the European Employment Strategy in Finland*, Ministry of Labour. Helsinki.

²¹ E.g. Employment Service 2000, 'Modernising Supported Employment.' www.employmentservice.gov.uk

The elderly participate in the active measures of labour policy less frequently than younger age groups, which is explained for the most part by the existence of the above-mentioned unemployment pipeline. Their participation has yet increased rapidly over the past few years. The chances of the elderly to enter working life after the measures are still half of those of the younger unemployed. Nowadays the unemployment periods of the elderly end in employment on the open labour market more often than before. However, the employment is not usually permanent, leading once again to unemployment.²²

The economic risks complicating the recruiting of the elderly concern medium-sized and large employers. Although the risks do not concern small employers, they have nevertheless strengthened their negative attitudes towards hiring the elderly.

The probability of disability increases with age. The individualized pension liability of large employers in the case of disability pension hinders the recruitment of the elderly.

The basic principle for individualized disability pension liability has been that it motivates the employers to look after their employees' ability to work, and it has worked in practice. The other side of the matter is that the employers' individualized liability has worsened the position of people who have become unemployed and are running a higher than average risk of becoming disabled. In the future there will be other inducements besides the individualized economic responsibility to maintain the employees' ability to work. The employers' decisions will have more emphasis on how they could hold onto their employees and keep them in working life as long as possible and keep them as productive as possible than on the cost of the pension only.

- When individualized disability pension liability complicates the employment of the elderly, it needs to be evaluated what would be the chances of relieving the large employers of their individualized pension liability in the interim.

The employee pension costs of large employers depend on the age of the employee. While small employers' employee pension payments in 2002 without client-specific considerations were 21.72% of the paid wages, the payments for large employers varied from the young employees' 15.62% to the elderly employees' 25.97%. At the most about 40% of the employees in the private sector fall within the sphere of the large employers' liability. Similar kind of an age dependency of pension payments also exists in the state and municipal sectors. Pension payments that change with age cast a negative shadow on the employment of the elderly and also cause concrete difficulties for their recruitment.

- An investigation needs to be made into the possibilities to eliminate the age dependency of pension payments for the private sector's large employers and the state and municipal sectors.

The so-called November pension settlement in the end of 2001 included the elimination of unemployment pension with the exception that the baby boomers born before the year 1950 retain their rights to unemployment pension. For those born later than that the right for additional days of unemployment benefit is extended by two years and it is effective till the person is eligible for old-age pension.

²² E.g. Kansallinen Ikäohjelman seurantaraportti 2002. Sosiaali- ja terveysministeriö, työministeriö. STM:n työryhmämuistioita 2002:15. [*The 2002 Follow-up Report on the National Age Programme*. Ministry of Social Affairs and Health, Ministry of Labour. Work group memos of the Ministry of Social Affairs and Health 2002:15].

As the baby boom generation leaves the labour market, the need for new labour will increase and the risk of large-scale labour shortage becomes imminent. It is of utmost importance that the baby boom generation will not be placed in the so-called pension continuum to wait for old-age pension. The activity rate of the labour policy directed at the elderly has been less than one fourth of the activity rates directed at other age groups.

- The elderly unemployed need to be supported in their effort to be placed back in working life again, and in this respect they need to be directed to the active labour-political measures. The activity rate of the policy directed at the elderly needs to be raised to the same level with the younger age groups, and the nature and quality of the measures have to be developed to suit the elderly.
- We also have to see to that unemployment will not become a route for the age groups born in 1950 and later to move onto old-age pension. Thus, employment opportunities and measures promoting employment need to be developed for the elderly unemployed.

According to the service need study of the elderly long-term unemployed, one third regarded themselves as disabled or for other health reasons not easily employable. The results of the related detailed medical evaluations largely supported the subjective views of the unemployed.²³ There is no sense in directing the activation at and promoting the employment of those elderly unemployed who in fact are incapable for work. It would also tie up the time of employment service counselors, if they tried to assist clients whose cases they could not do anything about.

- Unemployed job seekers who are not capable for work must be guided to applicable care and benefit systems.

The biggest obstacles for the employment of the elderly are the prevailing general labour market situation and their low or outdated skills. Therefore, the crucial measure to improve the employment situation of the elderly is the improvement of their employability.

Immigrants Living in Finland

In 2001 there were in total 32,500 foreign job seekers registered at the employment service agencies. Any immigrant, who has received a permanent residence permit, can register as a job seeker. The reason for immigration may have been for example remigration, exile or marriage. For labour market reasons, people who get a residence or work permit do not usually get a permanent residence permit. The unemployment rate of immigrants was 28% at the end of 2002. Their unemployment rate has clearly decreased over the past few years, as in 1997 it was still 45%. Though the unemployment rate is increased by certain statistical factors, it still is very high. It is especially high among immigrants who are refugees.

In addition to unemployment, another central labour market problem among the immigrants is the fact that there are fewer of them in the labour force. The employment rate of foreign citizens was approximately 55% at the end of 2001, which was about 14% lower than the employment rate of Finnish citizens. The lower rate is due to reasons such as that the proportion of mothers staying at home to take care of their children is higher among the

²³ Rajavaara, M (ed) (2000). Yksilölliset palvelut ja ikääntyneiden pitkäaikaistyöttömyys. Kela. Sosiaali- ja terveysturvan tutkimuksia 54. [‘Personalized Services and Long-term Unemployment of the Elderly.’ The Social Insurance Institution of Finland, *Studies of Social and Health Security* 54.]

immigrants. The proportion of those in training or studying is also large. 75% of the immigrants are of working age.

The immigrants are an extremely heterogeneous group. For example, the employment rates of immigrants from different countries differ greatly. Their educational backgrounds also vary greatly; 25% have a degree from a higher educational institution, while some refugees are illiterate. Their earlier labour market experience has an important role in their chances to integrate into working life. In case of long-term unemployment, the chances to get into working life are small. At the same time, this increases the danger that they will become segregated from society to their own distinct cultures.

Because of the heterogeneous nature of the immigrants' group, integration requires individual solutions and solutions affecting many fields of life, for example racism. Guiding immigrants to the labour market requires the employment service agencies to develop their services to meet the needs of the immigrants, training immigrants as employment service counsellors, and, above all, adequate translation services. The following concentrates on the three most important issues that prevent the immigrants' placement in working life: opportunities to develop language proficiency, vocational training and continuing or qualifying education and training.

The most common obstacle for immigrants preventing their employment is inadequate skills in Finnish and/or Swedish. Immigrants are entitled to active integration training within three years from the date of immigration. There have been adequate opportunities for them to attend immigrant training, which is provided as labour training, but the training has not lasted long enough. Lack of resources has shortened the length of training acquired in 1998-2001 on the average to less than half of the Ministry of Education recommended 40 study weeks.²⁴

- The length of immigrant training has to be approximately 40 study weeks. The immigrants, who so far have received too short a training and have not reached the level of language skills required on the labour market or advanced education, need to be enrolled in supplementary immigrant training.

Integration training is available only to immigrants, who are receiving labour political or subsistence benefits and have been in Finland for less than three years. All immigrants who would need language training do not fall into this category.

- Necessary teaching of Finnish or Swedish must also be provided to others than those entitled to the integration training.

About 25% of immigrant job seekers have higher or lower university degrees, 32% have secondary education and 31% basic education. In other words, their levels of education are somewhat better than those of Finnish job seekers.

It is difficult for the immigrants to be placed on the open labour market in jobs that would correspond to their skills or resources without experience acquired in Finland or a network of Finnish contacts. Immigrant and other labour training and on-site practical training are crucial when it comes to acquiring the basic skills needed in working life. For some adults, it seems most natural to study Finnish/Swedish while in practical training.

2,190 foreigners started vocational training in 2001. The reason for the low participation in vocational training among the immigrants is due to poor language skills and the fact that the

²⁴ Valtioneuvoston selonteko kotouttamislain toimeenpanosta (VNS 5/2002vp). [The government's report on the execution of the Integration Act. (Cabinet Report 5/2002).]

vocational training and work experience they acquired in their native country has not been clarified well enough. Poor language skills without language or remedial classes will easily result in dropping the training.

- The immigrants need to be gotten more interested in seeking vocational training. Teaching of Finnish and Swedish and opportunities for remedial classes during training need to be increased. Practical training on the job also needs to include tutoring in Finnish and/or Swedish.

Special measures are also necessary in the support of the educated immigrants to enter the labour market. To be employed in their own profession or trade, they usually require supplementary vocational training to update their skills to meet the needs of the Finnish labour market. It may also be difficult for immigrants to be employed in jobs that correspond to their education or training because there are no methods to evaluate or recognize the educational equivalency of the credentials acquired in their native countries. That explains why immigrants so often end up in lines of work that have nothing to do with their prior education. Tailored continuing education for immigrants with higher degrees has proven successful for at least in the cases of doctors and teachers.

- To efficiently utilize the immigrants' degrees of different levels that they have taken in other countries, systems need to be developed to evaluate their educational equivalency, and continuing or qualifying education and training need to be arranged.

A foreigner who has studied and taken a degree in Finland needs to return to his or her native country to apply for a work permit to work in Finland.

- Foreigners who come to Finland to study need to be given the opportunity to continue working after they have finished their studies without having to return back to their native country.

2.4. Prerequisites for Activating the Unemployed

Preventing the labour shortage requires that the flexibility and dynamics of the labour reserve be increased. Dismantling structural unemployment requires resources and also additional work effort of the staff, which means cuts to the measures directed at the short-term unemployed. Besides working to end and prevent (e.g. segmentation of job seekers) structural unemployment, action that affects the short-term unemployed has to be adequate. When the objective is the placement of the unemployed on the open job market, the quality and successfulness of the labour policy need to be improved. Action entities of longer duration and more individualized measures require more staff resources.

The employment service counsellors in Finland are already unexceptionally burdened, because the rate of unemployment is manifold compared to the pre-recession years. There are 150 unemployed people per employment service counsellor whereas for example in Denmark the number is only half that. It is probable that labour shortage will become a problem in Finland before it hits most EU countries, which is why the shortage in employment service counsellors needs to be solved quickly. The problem can be partially solved by buying services and rationalizing operations. The development of electronic services will especially free employment service counsellors more for client service. In addition, the centres of joint services, which have already proven useful in servicing people who have difficulty in getting

jobs, also make available the resources of the municipalities and The Social Insurance Institution of Finland. Even so, the current staff will not be enough for the sufficient activation of the unemployed reserves.

- Providing sufficient labour resources requires an adequate client service staff. It needs to be identified how this can be achieved by raising the productivity of the services, and how much more client service staff is needed. In this connection, it also has to be determined what the labour administration's employment service counsellors should do themselves and what would be justifiable to buy as outside services. It is also necessary to determine the extent of the activities offered as joint services.
- Securing labour resources requires many-sided expertise from the labour administration's client service staff. Regardless of these high-standard requirements, the employment service counsellors' wages are low. There is a danger that the securing of the labour resources will not succeed, because there won't be enough staff to do the work. The staff will leave labour administration when the labour market will start experiencing labour shortage.

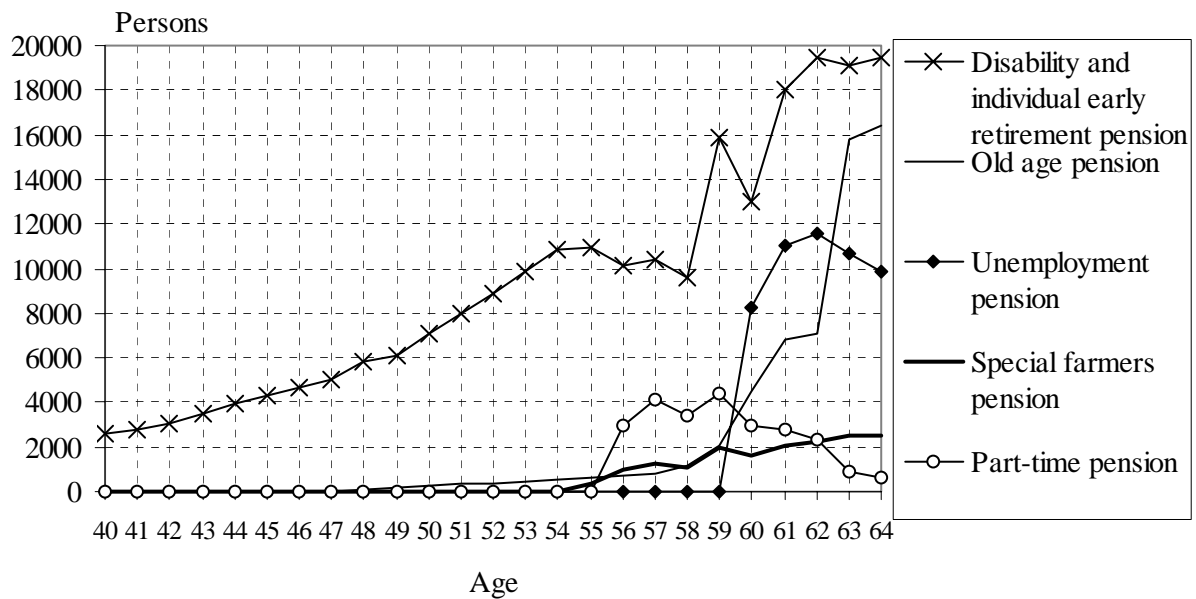
3. Well-being at Work and Remaining Capable for Work

In order to lengthen working age from what it currently is and to raise the rate of employment in different age groups, all parties involved in working life must pay attention to well-being at work; controlling changes in working environment, functionality of work communities and their readiness for change, as well as individuals' abilities to cope with work, all of which together and separately affect the productivity of work.

Employees' capability for work is a central factor affecting their continuing working. Problems regarding capability start becoming more and more common after the age of 55, but even before that some capability problems can limit working considerably. The numbers of people going on disability pension accelerate from the age 45 on, as can be seen in figures 11²⁵ and 3. (The numbers in figure 11 represent absolute numbers of people, which are affected by the smallness of the wartime age groups.) In recent years, mental issues have become one of the main reasons of retiring on disability pension. This brings forth the importance of the quality of working life and the well-being of the work community and maintaining the well-being in the prevention of unemployment.

²⁵ For more details, see Kansallinen Ikäohjelman seurantaraportti 2002. [*The 2002 Follow-up Report on the National Age Programme.*]

Figure 11. 40-64-year-old part-time and fulltime pensioners by type of pension on 31 December 2000. One person may be drawing several types of pensions. Statistics Finland, Regional Employment Statistics (preliminary data).



The promotion of employees' staying at work has gained wide attention, since the central legislation concerning the matter has been revised or is under revision. The occupational health act and occupational safety act have both been revised and the government has given a bill for the occupational rehabilitation act. The basic necessary legislation is starting to be there. What remains problematic, however, is its application in practice and the cooperation at workplaces and among authorities.

Occupational health services will be in the key position in promoting the correct timing and early detection of rehabilitation needs. The main emphasis of their operation has traditionally been on medical aspects and thus the development issues of the work community are a fairly new area. Occupational safety has advisory bodies at workplaces in which the employers and the employees can discuss questions concerning the work community. Therefore, the development of the cooperation between occupational safety and occupational health will become an important issue in the future.

The occupational rehabilitation offered by the employee pension system concerns only about 5.000 people at the moment. The act on occupational rehabilitation will promote the increase of rehabilitation, though the legislation does not include any strong incentives to accelerate the rehabilitation. It is very important that occupational health operates to stimulate activity at workplaces. This is a problem especially at small workplaces, which arrange their occupational health services through municipal health services. Municipal health services consider the compensation for occupational health services insufficient, and the operation has also been restricted by the capacity of health centres. The occupational rehabilitation arranged by the Social Insurance Institution of Finland has been quantitatively wider spread than that provided by the employee pension act, but even it has had its problems. The rehabilitation benefit practically will not be granted anymore once the employee reaches the age of 55. It seems that the age of 55 is a watershed after which the solutions will become passive.

The insufficiency of early rehabilitation is evident also indirectly. Every year about 10.000 people with disabilities come to the employment service agencies and they come specifically

from working life. Especially small workplaces have limited possibilities to arrange suitable new duties for a person who has become disabled. In such cases, the solution is termination.

The rapid changes in work communities and environments have been answered by joint development of work, development of approaches to work, new models of working, changes in the distribution of work and changes in regulations governing work. What is essential in the future is how people will cope with encountering the problems that arise from changes in work. This will also to a great degree be influenced by how the changes will be implemented in work communities. Disturbances, which are experienced as rush or insurmountable tasks and are attempted to be resolved by ostensibly working solutions, will lead to a crisis in the modes of operation and ultimately fatigue. New modes of operation are going to be needed, and some have been presented in the working memo of the Finnish Working Life Productivity and Quality Development Programme (abbr. in Finnish TYKES) that is an extension of the working life development and productivity programmes. Similar presentations are also included in the VETO Programme (to increase the attraction of working life and to improve and promote working-age people's well-being at work) of the Ministry of Social Affairs and Health. The advancement of the interaction and cooperation of this developmental work and occupational safety and health services is still in its preliminary stages.

The following table reveals the integral relation of workplace characteristics and modes of operation even directly to disabilities.

Table 1. The relation of workplace characteristics and modes of operation to ability to work. The 2000 Follow-up Report of the National Age Programme.²⁶

CHARACTERISTIC		Ability to work poor or worsened (percentage)
Termination of employees	Yes	10
	No	7
Employees made part-time	Yes	16
	No	7
Competence and knowledge of staff	Increased	5
	Decreased	16
Opportunities to influence tasks	Improved	5
	Worsened	18
Work pace and rush	Increased	9
	Decreased	2
Physical stress caused by work	Increased	11
	The same	6
	Decreased	0
Mental stress caused by work	Increased	10
	The same	5
	Decreased	1

²⁶ The evaluation of the ability to work is based on the version applied for phone interviews of the working ability index developed by the Finnish Institute of Occupational Health, which has been annexed to the barometer of workplace conditions. It is to be noted that it only deals with the relations between the ability to work and conditions at the workplace, not their causal interdependences. Neither has it been attempted to control the intermediate factors in the setting.

Training paid by the employer	Increased	4
	Decreased	12
Chance to use acquired skills at work	Increased	4
	Decreased	19
Productivity, quality or service has been improved	Yes	6
	No	8
Team work at workplaces	Mainly	7
	Partly	5
	None	10
Direction of change in supervisors' way of management	To better	5
	To worse	16
Direction of change in the meaningfulness of work	To better	6
	To worse	11

Besides supporting the employees' staying at work, another counter reaction to the shortage of labour force will be raising the productivity of work. The problem in a situation where the availability of labour threatens to hinder economic growth is that attempts to strengthen the growth of productivity may have adverse effects on people's ability to work and to cope with work and their motivation to work. These situations arise when attempts are made to increase productivity in a way that does not adequately take into consideration the needs and views of the personnel. In the worst case, the accelerated growth in productivity that is intended to compensate for the decreased work effort may in some fields or tasks even further accelerate the decrease in labour. Aging employees cannot cope with or feel secure in their occupation or its duties. It will be difficult to attract younger people in their place who will have increased alternate opportunities on the labour market due to the decrease in the availability of labour.

The challenge is to find solutions that allow accelerating the development of productivity in a way that also cares for the well-being of the employees and thus increases their chances to stay in working life. In the near future, there will be a need for effective means in Finland that will both promote the availability of labour in the long term and accelerate the growth of productivity at workplaces while taking care of the well-being of employees. The objective has to be the development of the workplaces' modes of operation in such a manner that they can better than before solve their problems and find the solutions for their development needs themselves through the cooperation of the management and staff.

Notable reforms have taken place in legislation that will promote the employees' staying at work. The programmatic development of work organisations has brought positive results (e.g. The National Workplace Development Programme, The National Productivity Programme and The Well-being at Work Programme), and new programmes are being developed (e.g. the VETO Programme). The development of different activities has been divided in sectors administratively.

In Norway, where notable problems in the availability of labour have already emerged, the government and the parties of the labour market made an agreement on an inclusive labour market in October 2001. The agreement that is in force till the end of 2005 is an attempt to decrease absences due to sickness by 20% during the validity of the agreement, support a considerably wider participation of the partially disabled in working life and raise the actual age of retirement. The agreement is also an attempt to tighten the cooperation between the employment service agencies, social insurance services and occupational safety, and tighten

their connections to single enterprises. The authorities have the duty to give the enterprises that enter into an agreement of cooperation with the authorities economic and administrative support in their efforts to reach the objectives of the agreement.

- The retirement of the baby boom generation must be restrained by means of working life development. It is necessary to increase the efficiency of the activities to promote the employees' staying and well-being at work. It is also necessary to deepen and coordinate the cooperation between the different sectors (development of working life, occupational health services, occupational safety) and actors (different authorities, labour market organisations, representatives of employers and employees in enterprises) to increase the success of the development work.
- A uniform cross-governmental strategy needs to be created to develop the quality of working life. This requires that the labour market organisations also be tightly involved in guiding and planning the action. It will be necessary to guide, activate and evaluate the development of the quality of working life, the meaningfulness of work and the work communities to improve the maintenance of the capability for work, coping with work and well-being at work.

4. Retiring on a Pension and Pensioners

The actual age of retirement went up by a little over a year in the late 1990s. This happened due to such factors as pension-political solutions, support action for the elderly to stay at work and favourable economic growth. The agreement the central labour market organisations made on 12 November 2001 on the changes to the employee pensions of the private sector (in short, the pension package) support the same development. Based on the calculations on how the pension reform affects employment, it has been estimated that under favourable economic development, the reforms suggested in the agreement will delay the retirement of working-age people by about one year²⁷, and after the September 2002 amendments the delay will be a year and a half²⁸.

According to the pension package, a 62-68-year-old person can retire on old-age pension. If the person continues to work at the age of 63 or older, the work will accumulate future pension at more than twice the rate than the work performed at a younger age. In addition, unemployment and individual early-retirement pensions are to be abolished.

- The effect of the pension reform on increasing the labour supply is positive and significant.

The following factors also are important from the point of view of labour supply.

²⁷ Komiteamietintö 2002:4. SOMERA-toimikunnan mietintö. Helsinki. [*Committee Report 2002:4. SOMERA Committee Report.* Helsinki.]

²⁸ Arvioita työmarkkinajärjestöjen sopiman yksityisalojen eläkeuudistuksen vaikutuksista 2002. Eläketurvakeskuksen monisteita 40. [*2002 Estimates of the Effects of the Private Sector Pension Reform Agreed on by the Labour Market organisations, The Central Pension Security Institute's hand-out 40.*]

4.1. Gradual Transition from Working Life onto a Pension

Studies on the ability to work have shown that among the elderly, who have reached the age of 55, chronic illnesses and ailments become more common than among the younger age groups. The illnesses do not normally restrict work and if they do, the elderly often consider the matter correctable by different work arrangements, for example flexible working hours.²⁹ Clearly, there is a need to retire gradually on a part-time pension. The current part-time pension system (over 29.000 pensioners in the end of 2001) has raised contradictory views on whether it is a substitute for fulltime pension or fulltime work. No conditions regarding the ability to work or coping at work have been decreed on the receipt of part-time pension. The age limit of part-time pension will be raised from 56 to 58 with the pension settlement, and the accumulation of old-age pension from the part-time pension will be cut in half compared to what it is now.

Lowering the accumulation percentage and raising the age limit of part-time pension is well grounded from the angle of labour availability in cases when receiving the part-time pension does not involve any reasons relating to the ability to work or coping with work. However, the changes made to the eligibility of part-time pension also limit the options of those whose chance to go on a part-time pension would prevent being deemed totally incapable for work. It has been estimated that the numbers of people wanting to go on a part-time pension may diminish especially among those with poor economic situations.³⁰

- Staying in working life must be promoted with early rehabilitation measures, arrangements in working conditions and allowing part-time employment when it supports maintaining the elderly people's ability to work. At the same time it needs to be evaluated how the development of the part-time pension system can support part-time employment that maintains the ability to work and how the support could be extended to those under 58 years of age when necessary.
- Staying in working life must be supported also in situations when the ability to work has already weakened. This calls for the development of practices at workplaces that enable more accurate follow-up of the ability to work of the 55-59-year-old people and, when necessary, allow them to take advantage of the possibilities offered by the part-time disability pension.

4.2. Promoting the Employment of the Elderly Entitled to Old-age Pension

The Finnish pension system does not punish working when on an old-age pension; in other words, working does not decrease the pension. The pension package clearly adds to the incentives of continued employment. Through the incentive accumulation, it encourages delaying the transition onto an old-age pension from 63 years to 68 years and even beyond. The retirement package supports expressly the delaying of the transition from fulltime employment onto a fulltime pension.

²⁹ E.g. Kansallisen Ikäohjelman seurantaraportti 2002. Sosiaali- ja terveysministeriö, työministeriö. STM:n julkaisu 2002:15. [*The 2002 Follow-up Report on the National Age Programme*. Ministry of Social Affairs and Health, Ministry of Labour. Publications of the Ministry of Social Affairs and Health 2002:15.]

³⁰ Takala M. (2002). Osa-aikaeläke ja varhennettu vanhuuseläke muuttuvat – nouseeko eläkeikä? ['The Part-time Pension and Early Old-age Pension Are Changing - Will the Retirement Age Go Up?'] in the publication Takala M., Uusitalo H. Varhaiseläkkeet muuttuvat – mutta miten? Eläketurvakeskuksen raportteja 30. [*Early-retirement Pensions Are Changing – But How?* Reports of The Central Pension Security Institute, 30.]

The accumulation percentage of part-time pension has been lowered in the pension package. However, it also supports going on a part-time pension in the sense that the accumulation percentage for part-time work remains high.

- To encourage the elderly entitled to old-age pension to continue working part-time requires the investigation of whether it were possible to also raise the accumulation percentage of the part-time pension from the age of 63 on.

A proportion of people who have already gone on old-age pension may later consider returning to working life. If their participation in working life is not significant, for example a teacher working only few hours a week, the economic benefits of the work are not worth mentioning. Even so, part-time and other small-scale employment of those receiving old-age pension should be strongly supported.

- Enabling the work effort of the pensioners requires flexible solutions that yield explicit earnings for their work effort, even when it is part-time.

5. Trainees and Students

There is a vast number of youth and young adults studying at educational establishments. In 2001, there were over 300.000 people in total studying at vocational schools, universities and other institutions of higher education, including polytechnics.

The most prominent problem in making studying more efficient has concerned prolonged studies. Another central problem concerns the transition from one level or field to another. The transition period from high school to university may include two to three intermediate years. The third inefficiency factor is that studies are not concluded. The fourth factor is that some young people do not continue on to the next level after comprehensive school. Solutions have been developed to all these questions that aim at an increase in labour force and improvements in its quality. Making studying more efficient does not necessarily increase the labour supply much. Namely, as table 2 shows, it is very common for students to work while studying.

Table 2. Students in educational institutions during the last for weeks by type of institution, age (15-29 years) and activity, in percentages. Employment study of institutions of higher education in 2001.

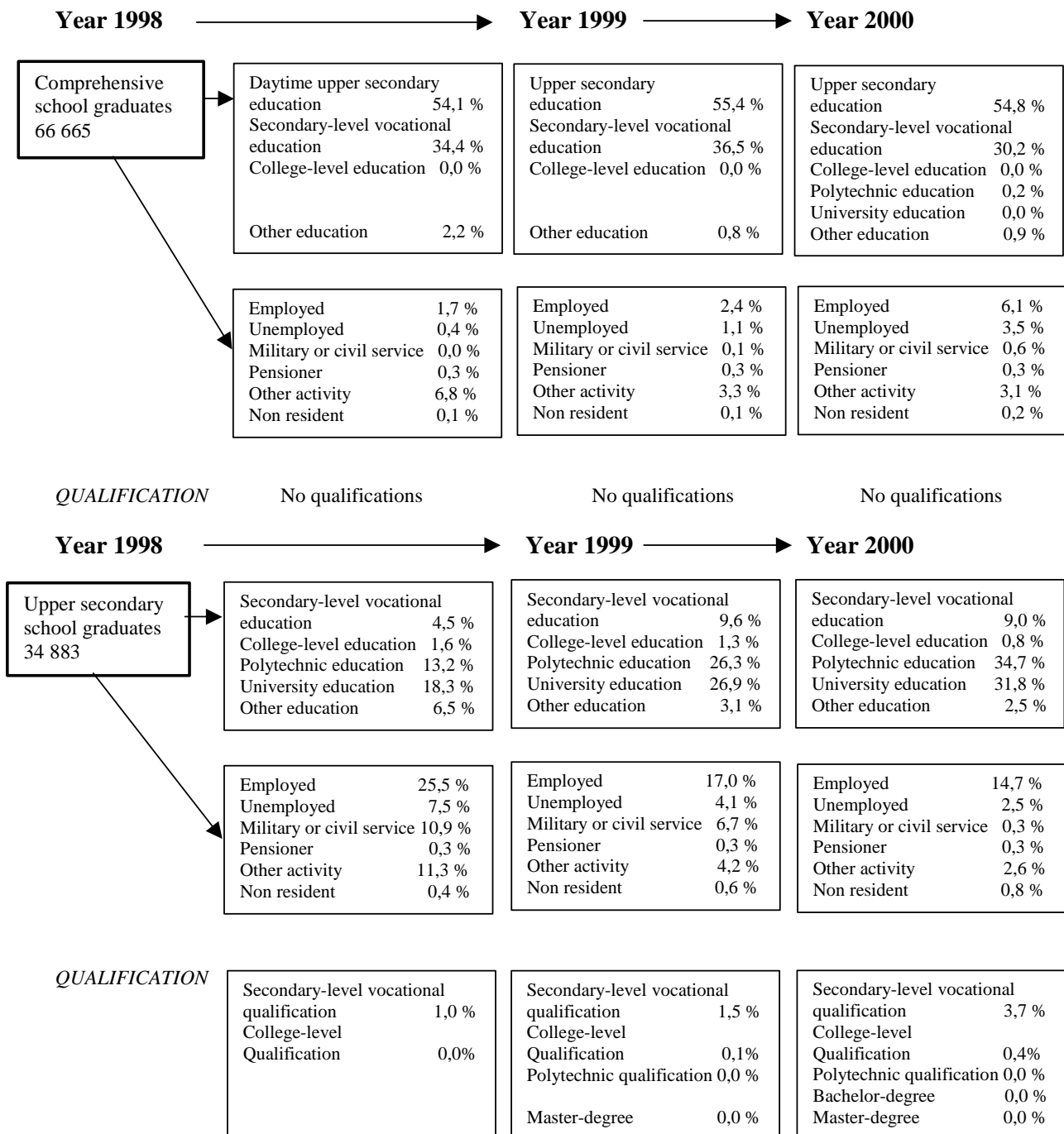
Age/Activity	Comprehensive school	Upper secondary school	Vocational or trade school	University or other institute of higher education, incl. polytechnics
15-19				
Student only	83,3	67,9	70,8	59,0
Also employed	9,3	22,3	20,1	27,0
Or unemployed	6,8	9,2	8,5	9,0
Or other	0,6	0,6	0,7	5,0
N	68 900	117 800	76 300	10 100
20-24				
Student only	0	27	47,7	45,1
Also employed	0	43,2	42,3	44,9
Or unemployed	0	21,6	8,1	8,4
Or other	0	8,1	1,9	1,6
N	0	3 800	31 100	115 100
25-29				
Student only	0	22,2	24,6	27,9
Also employed	0	55,6	68,4	62,5
Or unemployed	0	11,1	4,3	7,0
Or other	0	11,1	2,7	2,5
N	0	800	18 700	51 300

The problematic areas in our educational system, such as the intermediate years between different forms of education or total displacement outside the educational system, often signify the employment or unemployment of the young as can be seen in figure 12. It shows the principal activities of those graduated from comprehensive or upper secondary schools in 1998 and the degrees they acquired that year or by the end of 1999 or 2000.

The transition of the youth from studies to working life earlier than before does not significantly increase the supply of young labour, because the delay in finishing their studies is essentially linked to the fact that they are already participating in working life. It is important to make the educational system more efficient for the purpose of improving the availability of labour, because the majority of students who work are not in a job that would relate to their studies or future career. It must be admitted that work experience as such often is a positive factor, but there still are no grounds to the large-scale and continued employment of students in jobs that do not relate to their future occupation.

The reason for prolonged studies often is the difficulty of finding employment. This has led to, among other things, completing additional study weeks. Work experience, even if it may not be in the intended field, may help in getting a job. These problems will be diminishing as the shortage of labour becomes more common. However, the new situation will increase the pressure to participate in working life in the middle of studying or to combine studies and work. This new labour market situation needs to be anticipated in the measures that are directed at making studying more efficient.

Figure 12. The placement of those who graduated from comprehensive or upper secondary high schools in 1998 in advanced education or working life, and the degrees they acquired by the end of the years 1998-2000. (Studies have been considered a primary placement; if the person has been working while studying or participated in other activities, he or she has been counted as a student.) Statistics Finland, Student Flow Statistics 8 May 2002.



5.1. Increasing the Efficiency of Higher-level Studies

Students graduate from secondary-level vocational institutes and polytechnics approximately within the standard time frame. It takes approximately four years to complete a degree at a polytechnic. Prolonged studies are not really a problem in their case, but university studies seem to take a lot longer. The current median of graduating from a university is six years.

The average age of graduation is 27.1 years. University studies also last longer in Finland when compared internationally.

Several attempts have been made to shorten the length of university studies. There has been a gradual transition to a degree-based result guidance system at the universities so that there already exists ten years of experience covering the change in the guidance system. Financial aid for a university degree was restricted in 1992 to no more than 55 months and the aid is bound to the student's income. The time spent for taking a university degree has shortened by approximately one year during the past decade. It is yet difficult to say what role the change in the guidance system, the reform of financial aid and limiting the length of the aid have played in the change.

The changes support fulltime studies, even though the requirement to receive financial aid is set to only 2.5 study weeks per month, which does not provide enough progress for the studies to proceed according to the set targets. The concrete measures intended to increase the efficiency need to be flexible, and it is not practical from the point of view of efficient studying to suspend the aid for example for failing in one extensive exam.

The fact that students work is one major reason for the prolonged studies. Half of the students studying at universities and other institutes of higher education worked during the previous four weeks (see table 2). A major reason for working has been said to be the insufficiency of financial aid as livelihood. Studies concerning financial aid have proved, though, that students not only want to secure their livelihood by gainful employment but they also want to improve their standard of living. For this reason, a big increase in financial aid would affect working only to some extent. Another big reason that prolongs or interrupts studies is lack of guidance with studies. Among others, SYL (The National Union of Students in Finland) has paid attention to this.³¹

Currently the time spent studying at a university has become unnecessarily long. Even if there were opportunities to complete the degree faster, it would not necessarily increase the efficiency of studying on its own. At polytechnics, the efficiency of studying has been improved by limiting the time for studies. It takes approximately four years to complete a degree at a polytechnic, so students do not have problems with prolonged studies. Universities do not have any restrictions in place for the right to study. It has been suggested that to shorten the time for university studies, students should be given the right to study only for a fixed period of time. Limiting the time for studies involves many problems, though.

The unrestricted right to study also includes the unrestricted right to the status of being a student, which includes advantages, various discounts, admission to student apartments, etc. In some cases, receiving these advantages has directly delayed the completion of the degree.

Unlike in other countries, it does not cost anything to study at a university in Finland. Fees for studying have been justified especially by saying that studying at a university is an investment in human capital that will bring significant economical profit to the person. It would be problematic to start collecting term fees for university studies especially because of equality; term fees could prevent some people from beginning their studies because they lack the funds. However, if the society provides free studies and an opportunity to complete them efficiently within a reasonable amount of time, and studies yet get prolonged, equality viewpoints would no longer prevent the collection of term fees. Quite the contrary, term fees would add an incentive to complete studies within a reasonable amount of time.

³¹ A detailed review of the reasons for and solutions to the delayed studies can be found in the report 'Opintojen etenemisen tehostaminen. Opetusministeriön työryhmien muistioita 15:1998. [*Increasing the Efficiency of Studies*. Work group memos of the Ministry of Education 15:1998.]

- To shorten the time of studying at universities and other institutes of higher education, there is a need to draw up an action entity that constitutes of the following parts:
 - The development of tuition and guidance of studies will be raised as one of the main objectives concerning institutes of higher education in the Education and Research Development Programme 2003-2008.
 - Based on the suggestions made by the work group of the Ministry of Education, financial aid will be developed to facilitate efficient studying.³²
 - For university studies, a maximum time limit for the student status that provides tuition without fees and other advantages will be decreed in the degree act as the defined time period within which the degree needs to be completed. The time limit may be extended for extenuating circumstances.³³
 - The free of charge time period of studies at universities will be limited to coincide with the defined time period within which the degree needs to be completed as decreed in the degree act.³⁴

Figure 12 shows that 56% of the 1998 upper secondary school graduates did not continue studying immediately. The corresponding proportion of comprehensive school graduates of the same year was 9%. The importance of “intermediate years” is great in the year following the graduation from upper secondary school, but they also remain important in the following years. The reason for taking intermediate years may be that the student wants to get a way from studying for a while, military service, etc. One major reason, though, is that the young have not been admitted to the institution they wanted to attend or to study the field of their choice.

The reason why it is so difficult to begin university studies is the large number of applicants who have already studied at an advanced level. Almost one fifth of the students who began their university studies in 1999 had already graduated from a secondary-level vocational school, a college or even a university. Almost 5% were university graduates.

- To cut down unnecessary intermediate years between levels of education, those who come immediately from secondary-level schools, either senior high or vocational institutions, must be given precedence in university admissions.
- It needs to be discussed whether it would be necessary to develop a separate system for the admission of those who already have degrees, so that they would not take the places of those who are entering the university to study for their first degree.

The entrance exams of universities and other institutes of higher education are given usually relatively soon after the matriculation examinations have taken place. Many young people will not have enough time to prepare for the entrance exams, which makes them delay their application for admission at least by one year.

- The entrance exams of universities and other institutes of higher education have to be moved till late summer so that new senior high school graduates can better prepare for the exams.

³² Kannustava opintotuki. Opetusministeriön työryhmien muistioita 18:2002. [*Incentive Study Grants*. Work group memos of the Ministry of Education 18:2002].

³³ Cf. e.g. report Opintojen etenemisen tehostaminen. Opetusministeriön työryhmien muistioita 15:1998. [*Increasing the Efficiency of Studies*. Work group memos of the Ministry of Education 15:1998.]

³⁴ The representative of the Ministry of Education did not think it necessary to decree term fees.

One quarter of the students who begin studying at a university will not graduate with any kind of a university degree. The proportion of dropouts is not exceptionally high on an international level. However, considering that the entrance exams in Finland are given for the purpose of selecting motivated students who are suited for the field, the percentage of dropouts is high.

It is more rare to drop out from polytechnics. The dropout rate in 2001 was 6.6%. In addition, 2.5% transferred from one institute to another. Most of them transferred to another polytechnic.

- It is a very difficult and complicated task to decrease the dropout rate. It is, however, safe to presume that the aforementioned measures to increase the efficiency of university studies will also have a positive impact on preventing university dropouts. The transition to a two-level structure of degrees at the universities will also decrease the number of dropouts, which supports the realization of this reform from the point of view of labour availability. At polytechnics the solutions are specifically directed at the development of tuition and guidance of studies.

When students transfer from one field or institute to another on the same level, it may lead to prolonged studies for the following reasons. On the one hand, the courses that a student had already taken may be only partially accepted at the other institute. Although the goal has been to accept previous studies as fully as possible, it has been realized only partially. On the other hand, the transfer from one institute or field to another may happen due to wrong initial choices, a problem that could be minimized by developing study guidance on lower levels of education. Another reason to change the field or institute could be that the student did not previously get accepted to the field or institution of his or her choice. Transfer from one field or institution to another also means that the student initially took away somebody else's opportunity to study.

- Although the transfer from one field or institution to another might be well-grounded, it also signifies quite a waste of the opportunities to study that are provided by the society and limits other students' opportunities to study. The maximum time limit for the student status proposed previously in this chapter should be extended to cover all higher-level education in general, regardless of the institution.

5.2. Reducing Displacement in Secondary-level Education

66,700 students graduated from comprehensive school in 1998 (see figure 12). About 90% of these graduates continued on to secondary-level education so that about 55% went to upper secondary school and 35% to vocational institutes. About 2% received continued basic education.

A couple of percentages of comprehensive school graduates went on the labour market, and the activities of about seven per cent were classified as "other". The latter group most likely consisted of young people who were not unemployed job seekers, because they would not have been eligible for labour market support due to having only basic education. A year later, considerably more continued studying. In the end of 2000 especially the proportion of those participating in secondary-level vocational education had dropped. At the same time, the proportion of working young people had gone up. Based on the student flow data of Statistics

Finland (Statistics Finland, Educational Institution Statistics 2001), it can be concluded that the dropout rate has remained on the level indicated by previous statistics, i.e. at 10%.

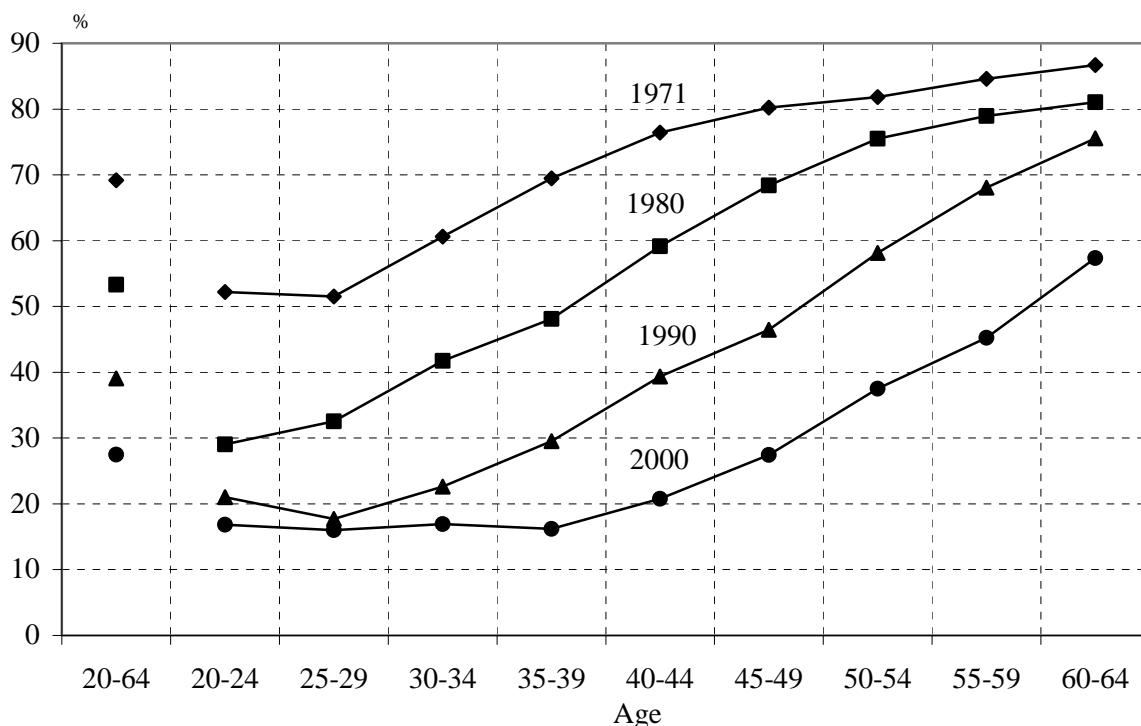
Secondary-level vocational education has been developed to reduce the numbers of dropouts. The tuition has also been brought closer to practical working life, which reduces the numbers of dropouts. Another factor supporting the completion of studies has been that degrees based on proof of skills have become more common. The result-oriented model of financing for vocational education that was developed in 2001 also aims at reducing the dropout rates. The model is being implemented gradually. Trade workshops and dropout reduction projects (often ESF projects) aim at creating alternatives to traditional vocational education. The action programme regarding the promotion of the youth's participation that was completed this year made propositions that are important in the prevention of labour shortage.

The above-mentioned measures are necessary to prevent the displacement of the young. However, in the future it will be even more difficult to reduce the number of young people who will become displaced from the educational system, which can be seen in figure 13.

Over the past couple of decades the population's level of education has increased rapidly. In 1971 about 70% of 20-64-year-old people did not have a secondary-level or higher degree, whereas in 2000 their proportion was less than 30%. The rising level of education is almost solely due to the fact that the younger age groups are more educated and as they grow older, they also raise the level of education among the older age groups. It is not very common to take degrees anymore after the age of 30.

The level of education of the young has also clearly risen over the past couple of decades. During last decade, the rise was slower. The proportion of people without any kind of a degree after basic school is 16-17% in all age groups of people under 40 years of age. As labour resources start shrinking, this proportion will become unnecessarily emphasized; almost every fifth student does not complete a degree after basic education.

Figure 13. The proportion of those without a degree after basic education by age in 1971, 1980, 1990 and 2000. Statistics Finland, Education Statistics.



It is estimated that about 10% of the comprehensive school age group has poor motivation for continuing education or they are immature to make decisions about their choices. Although some young people start their studies after a certain search period, the proportion of the young studying at secondary-level institutions will start decreasing due to dropping out.

There are several factors that cause the young not to seek advanced education or to drop out. One important reason is the insufficiency of the acquired readiness provided by all-around education. This may also be caused by several factors that increase learning deficiencies, e.g. social problems, dyslexia, and so on. Correspondingly, there are multifarious means to reduce dropping out, but since the problem is so far-reaching, the solutions also should be extensive. One such solution that has been applied in some countries, e.g. The Netherlands and Germany, is to extend the length of compulsory education by one year for those who have not sought fulltime advanced studies at the age of 16.³⁵

- It needs to be looked into how the length of compulsory education could be extended by one year for those young people who have not sought advanced studies in upper secondary school or a secondary-level vocational institute. Increasing the quotas often is not an adequate solution to prevent displacement. For some, intensified guidance with studies, orientation in working life and educational alternatives are most important, while others need improvement with the learning skills acquired in junior high school. It is necessary to get different modes of education and operation (e.g. guidance with studies, workshops) and different actors (especially education, employment and social authorities) to cooperate and network. Tuition and guidance for the youth often needs to be more individualized and offer more alternatives. It is especially important to clarify what the role of the 10th grade could be in mending the deficient learning skills.

To reduce displacement after junior high school and dropping out from trade school, the following is of great importance.

- The small amount of financial aid available for vocational education makes the education less lucrative and increases the dropout rates.
- The income of the parents is considered when determining financial aid within tight income limits. The amount of financial aid is low for those under 20 years of age who live with their parents.

The labour market benefit and, for those over 18, the supplementary benefit are considerably higher than financial aid for studies.

- To improve the financial situation of students in secondary-level education, the amount of financial aid needs to be increased at least to the same level as what the child benefit for one child is.

Since the end of the 1990s, workshops for the youth have been an important means to prevent displacement. According to one study, about 15% of the youth attending workshops is running a serious risk of displacement. They are mainly young people who have been unemployed for a longer period of time. These days the young that attend the workshops also have learning deficiencies of different levels that have not always been identified at school.

³⁵ See Oppivelvollisuusiän alentamisen vaikutuksista. Opetusministeriön työryhmien muistioita 2001:20. [*On the Effects of Lowering the Age-limit for Compulsory Education*. Work group memos of the Ministry of Education 2001:20.]

Some workshops have specialized in the so-called “problem” youth, while others are oriented in servicing young people of various backgrounds. Both models have brought good results.

The workshops are almost totally owned by municipalities and their total number is close to 220. There are approximately 10.000 young people working and studying in 6-month periods in these workshops. Studies have shown that after the workshop experience 50-70% of the young find either a place to study or work. The workshops are thus an effective and almost the only communal means the municipalities have to prevent displacement. There are approximately 800-900 workshop instructors.

- A workshop network for youth that covers the employment regions (144) or at least the sub-regional units (84) must be secured. The most effective modes of operation resulting from the workshop activity have to be utilized and their operational quality needs to be improved by for example hiring the workshop instructors fulltime.

The fact that it is not easy to find employment after graduation from a secondary-level vocational education is a crucial factor that reduces the appeal of this type of education. Employment problems are manifold compared to graduates from high-level education and they are mainly caused by the general labour market situation. Compared to institutions of high-level education, secondary-level trade schools are often situated in regions where there are very few jobs available. There have been problems in forecasting the needs of labour and knowledge, but a study on the issue has now been concluded (see chapter III.1.).

In 2002 a work group was initiated between different authorities to provide study guidance and employment services. The work group’s task is to develop the cooperation concerning guiding the youth in education and working life, which includes guidance with studies, career counseling, educational and vocational information services and employment services for the young. In addition, the group can make suggestions to make educational, labour-political and guidance measures more effective, their goal being the easy transition of all young people from training to working-life or advanced education.

The growth in the independency of those who organize education has essentially affected the direction of education. The situation will change so that in 2003-2005 the Ministry of Education will grant incentive financial aid for those fields of basic vocational education that are anticipated to lack skillful labour in the future when the baby boom generation leaves working life. The new incentive financial aid will support the enhancement of the appeal and effectiveness of education, modernizing education and making student recruiting more efficient, as well as raising the image of education.

- On the basis of the experience gained from the incentive financial aid, it needs to be evaluated what would be the most effective way to direct education to meet the labour needs during the time of labour shortage, and how the coordination and cooperation between the different regions of the country should be realized.

5.3. Compulsory School Age

In Finland compulsory education starts a year later than in most European countries. One might expect that lowering the age of starting compulsory education would result in a significant increase in labour supply in the interim, since an entire age class would move on

to continuing education and working life one year earlier. However, this is not the case. Children at the age of six usually are not capable of absorbing subjects in the same manner as school children who are a year older. Furthermore, the graduation from comprehensive school would require the young to make their choices for the next level of education even younger, which would add to the risk of making unsuccessful choices. Compulsory education does not actually end any sooner elsewhere in Europe than in Finland, even though school is started at the age of six.

The work group that looked into the consequences of lowering the starting age for compulsory education came to the conclusion that the starting age of the nine-year basic school should not be lowered to six years beginning 2003. The work group recommends instead that when developing preschool, attention should be paid to the realization of educational, social and regional equality with special emphasis on preschool group sizes, pupil transportation and afternoon day care arrangements.³⁶

Municipalities have been responsible for providing preschool since the 1st of August 2001 and children are entitled to free preschool. A little less than 95% of all children eligible for preschool went to preschool in 2001. It is necessary to look into how much poorer readiness children who do not attend preschool have when they go to primary school compared to those who attend preschool. The variations in the nature and level of preschool are also important for the future learning ability, so they would need to be studied. In Finland like in other Nordic countries, the development of a child's social and individual skills is more pronounced than for example in Britain or the USA. OECD has stressed the need to pay more attention to the child's learning and development in the Finnish system.

- Lowering the starting age for compulsory education will not result in a noteworthy increase in labour supply, but it will affect the quality of the labour supply. If there later will be a decision to lower the starting age based on the experiences from the development of preschool and basic school, the most feasible model from the point of view of labour supply would be making preschool part of compulsory education. Thus, compulsory education would start at the age of six and would consist of one year of preschool and nine years of basic school.

5.4. Improving the Basic Occupational Skills of the Working Population

About 40% of the working-age population had only basic-level education in the year 2000. The level of education has risen extremely rapidly, and it has not happened because adults would have continued studying while working. The main reason for the change is that people with a lower-level educational background have retired and people with higher-level education have entered working life. Consequently, almost 60% of the 60-64-year-old people but about 45% of the 55-59-year-old people rely only on basic-level education and the proportion goes down sharply towards the younger age groups: less than 40% in the 50-54 age group, less than 30% in the 45-49 age group and less than 20% in the 25-44 age group (see figure 13).

Many people who do not have a degree from vocational education have acquired their skills in working life. The lack of basic occupational skills could become a problem when big changes occur in the structure of production or duties. Even so, the proportion of people

³⁶ See footnote 35.

lacking a post-graduate degree has remained small among those participating in vocational continuing education. More effective measures are required to increase the participation and to get people to complete the education.

- Raising the adult level of education with a limited-time programme consisting of additional measures must provide opportunities for people without a post-graduate degree to complete a vocational degree or part of it. The programme's objective should be to arrange education annually for about 10.000 adult students.

5.5. Long-term Training and Schooling of the Unemployed and Training Linked to Subsidised Work

Figure 13 presented the rapid rise in the population's level of education over the past few decades. The level of education among the unemployed also has improved rapidly (see figure 8), but it is still lower than the average level of education of the population at large. A lower level of education is also linked to the length of unemployment.

In December 2001 there were over 130.000 unemployed job seekers, i.e. 44% of the unemployed, with only basic-level education. Lack of advanced studies is most common among the long-term unemployed. 39% of those who had been unemployed for less than a year and 56% of the long-term unemployed lacked post-graduate degrees. Mere basic-level education is most common among the elderly. The majority of the over 44-year-old unemployed with only basic education have only lower basic school education background, while the clear majority of the younger unemployed have upper basic school education.

The unemployed with only basic education clearly have a higher probability of remaining unemployed for a longer period of time than those with advanced education. Aging and basic education very often also go hand in hand. Despite this, a clear majority of people with only basic education includes other than elderly people. There were 36.000 over 55-year-old unemployed people and 95.000 of under 55-year-old people with only basic education. Of the under 55-year-old people, about 71.000 had been unemployed for less than a year and about 24.000 at least a year.

Table 3 examines simultaneously the length of unemployment, the age of the unemployed and their educational backgrounds.³⁷ The connection between educational backgrounds and prolonged unemployment is evident in the table. Yet it is just as evident that prolonged unemployment is also caused by many other factors than only the level of education. Many unemployed people with only basic education get employed, and their unemployment ends before they become long-term unemployed.

³⁷ From 2001 on, new educational classification has been applied in compiling employment service statistics. Compared to the year 2000 classification, the new classification raised the proportion of the highly educated unemployed job seekers by 7% and lowered the middle-level proportion correspondingly.

Table 3.a. Job seekers who have been unemployed for less than and over a year by level of education and age group at the end of December 2001.
Ministry of Labour, Employment Service Statistics.

Level of education	The unemployed aged 15-29			The unemployed aged 30-44			The unemployed aged 45-54			The unemployed aged 55-64			The unemployed aged 15-64		
	Less than a year	Over a year	Total	Less than a year	Over a year	Total	Less than a year	Over a year	Total	Less than a year	Over a year	Total	Less than a year	Over a year	Total
Lower level of basic school	419	62	481	7674	3128	10802	23562	11116	34678	13715	17949	31664	45370	32255	77625
Higher level of basic school	16061	1533	17594	18206	6021	24227	4700	1904	6604	2089	2647	4736	41056	12105	53161
Secondary level	35847	2546	38393	34885	8071	42956	17580	5831	23411	6390	7058	13448	94702	23506	118208
Higher level of basic school	8076	415	8491	16096	2535	18631	8234	2609	10843	4069	4449	8518	36475	10008	46483
Unknown	626	82	708	1315	317	1632	648	217	865	329	340	669	2918	956	3874
Total	61029	4638	65667	78176	20072	98248	54724	21677	76401	26592	32443	59035	220521	78830	299351

Table 3.b. The distribution of job seekers who have been unemployed for less than and over a year into different levels of education (%) and the proportions of the long-term unemployed of all unemployed by level of education and age group at the end of December 2001.
Ministry of Labour, Employment Service Statistics.

Level of education	The unemployed aged 15-29			The unemployed aged 30-44			The unemployed aged 45-54			The unemployed aged 55-64			The unemployed aged 15-64		
	Less than a year	Over a year	Proportions of long-term unemployed	Less than a year	Over a year	Proportions of long-term unemployed	Less than a year	Over a year	Proportions of long-term unemployed	Less than a year	Over a year	Proportions of long-term unemployed	Less than a year	Over a year	Proportions of long-term unemployed
Lower level of basic school	1	1	13	10	16	29	43	51	32	52	55	57	21	41	42
Higher level of basic school	26	33	9	23	30	25	9	9	29	8	8	56	19	15	23
Secondary level	59	55	7	45	40	19	32	27	25	24	22	52	43	30	20
Higher level of basic school	13	9	5	21	13	14	15	12	24	15	14	52	17	13	22
Unknown	1	2	12	2	2	19	1	1	25	1	1	51	1	1	25
Total	100	100	7	100	100	20	100	100	28	100	100	55	100	100	26
N	61029	4638		78176	20072		54724	21677		26592	32443		86426	44360	

The government subsidised labour training does not last very long. In the year 2000 the average length of training was 4.6 months, while five per cent received training for over a year. The needs for training of longer duration for the unemployed have been met by providing financial aid for independent training and basic training through apprenticeships. Training has remained low quantitatively, and most participants have been short-term unemployed people. The unemployed who have participated in financially aided independent training have mostly had at least basic vocational or trade school background.

- There are grounds for providing government subsidised degree-oriented education or training for the unemployed with no vocational education. It should be offered primarily to the long-term unemployed and those whose unemployment is considered to become lengthy due to lack of skills and education. Training should be provided especially in the fields that are suffering from labour shortage. The knowledge surveys and job search plans of the employment service agencies must be developed so that they will support seeking degree-oriented vocational education or training.

There are in total 190.000 people in the group that consists of the long-term unemployed, repeatedly unemployed, those still unemployed after labour-political measures and those who repeatedly participate in them. It is neither possible nor practical for all of them to participate in long-term degree-oriented education or training. One measure that has been used in trying to improve their labour market readiness has been wage-based government subsidised work. In total 1,643 million marks was reserved for this purpose in the 2002 budget. This amount helps to employ approximately 38,500 people.

The consideration for government aid was increased in the labour policy reform that began in 1998 by introducing the so-called on-the-job training model. An enterprise was granted government aid provided that the enterprise improved the occupational skills of the unemployed they employed. The main reason for employing this model was the need for a flexible training method that would have enabled the crossing of the recruiting threshold. Most of the time the method remained on the level of the normal initiation of a new employee. Small and medium-sized enterprises simply did not have the resources to provide the training. Planning of the experimentation to increase learning while in a government-aided job has been initiated.

- Government-aided employment needs to be developed to enable training on the job for the unemployed who have difficulty in getting jobs and for whom the learning goals of for example apprenticeship training are not realistic. Goal-oriented training potential (a degree or part of it) needs to be linked to government-aided employment.
- Training is agreed on as part of the job search plan. If needed, labour administration will acquire applicable and individually planned education or training from educational establishments or directly from the employers as government subsidised labour training. Training can take place either at workplace or in an educational establishment. Continued guidance is to be arranged as a support measure for workplace training.

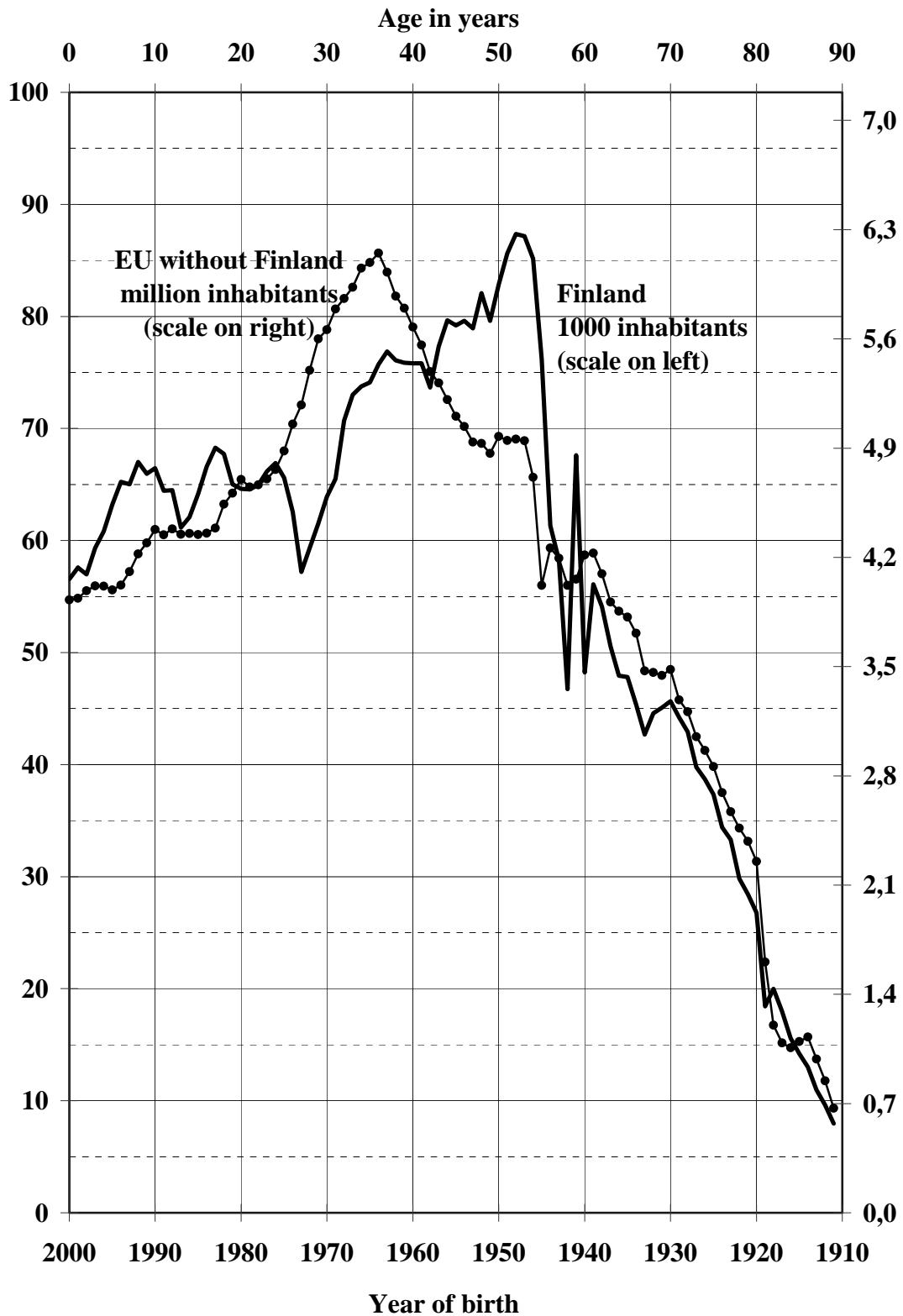
6. Increasing Work-based Immigration

To solve the problems regarding labour availability it is of utmost importance to utilize domestic resources better than before. The domestic resources also need to be reinforced with skilled foreign workers, though Finland is not the first choice for many in the competition. It is important to make better use of the existing immigrants' work efforts. This will also improve the original population's attitude towards the immigrants.

The big baby boom generation in Finland was born in the end of the 1940s and it is starting to leave working life. Generally age groups in the EU countries grow bigger until the mid-1960s (see figure 14). The age groups leaving the labour market will still keep on growing for a long time and worsen labour availability. In the future, the competition for immigrants will become critical between the EU countries. It is therefore crucial that Finland will immediately start gathering experience and creating ways of action to promote immigration.

- To improve the compatibility between labour supply and demand, the employment authorities also need to be active when it comes to immigration based on labour market needs. We must gather information and experience on arranging work-based immigration and create ways of action for the authorities to promote immigration. If there happens a steep increase in labour shortage, our country needs to have the readiness to increase immigration even substantially. Latest at this point, we need to make choices regarding from where and what kind of work-based immigrants our country especially needs and how the necessary action will be implemented in practice.

Figure 14. The population of Finland (per thousand) and other EU countries (per million) by age in 2000. Eurostat.

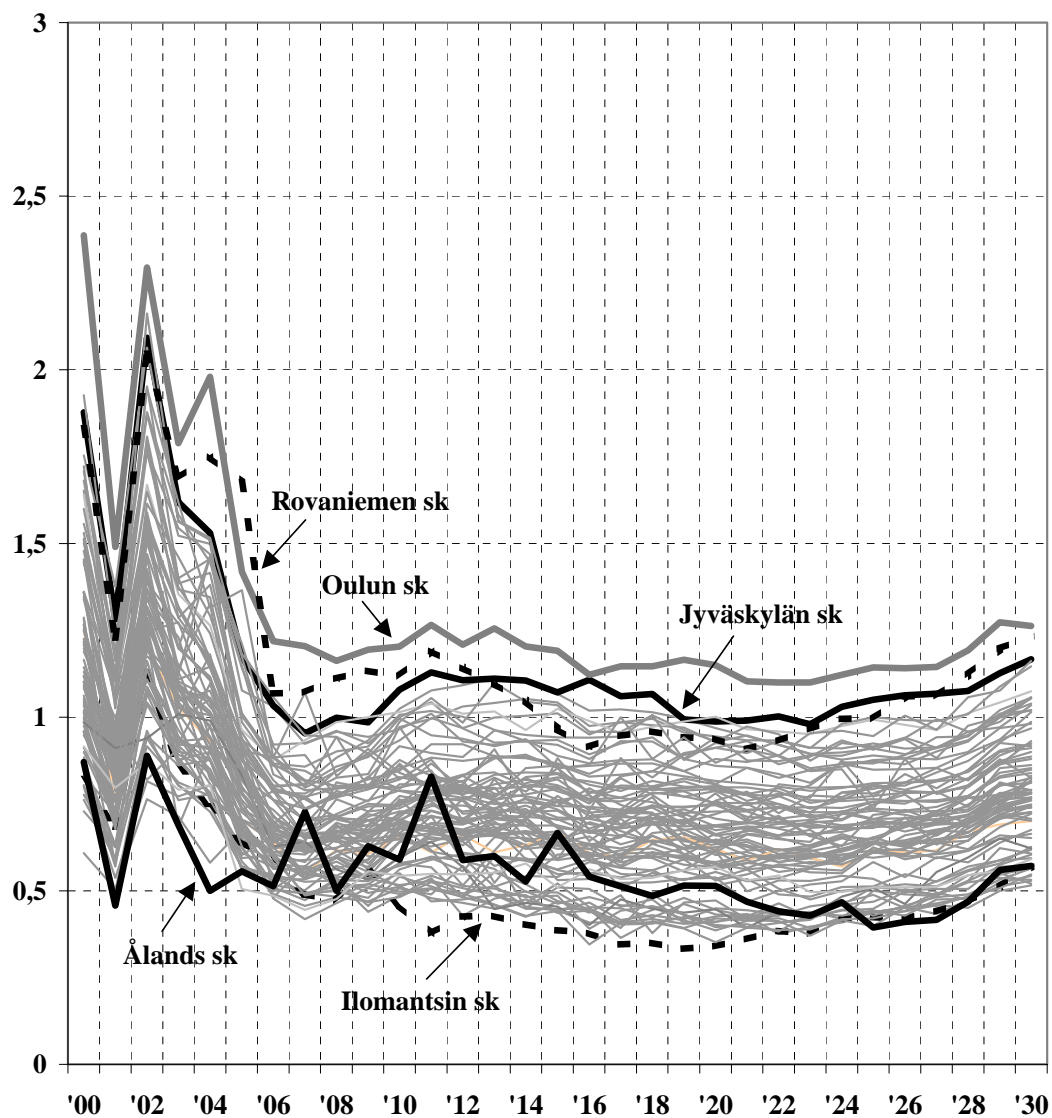


7. Labour Availability by Region

As labour force leaves the labour market, problems with labour availability will spread throughout the country, even to areas of scattered settlement. The regions that have traditionally suffered from net emigration will have the oldest age structure. Apart from the province of Uusimaa, the numbers of those under 65 years of age will decrease in all provinces by the year 2030 and the numbers of those over 65 will increase. The internal development within the provinces will vary: the trend will usually be most favourable in regional centres.

Figure 15 presents a rough population-based projection of what the ratio between people entering and leaving the labour market will look like, with the number of 20-year-old people proportioned to the number of 60-year-old people in different regional areas until the year 2030. When the ratio between the age groups is one, it means that the age groups entering and leaving the labour market are of equal size. The ratio will drop below one in almost all regional areas by the end of this decade, which means that there are more people leaving the labour market than entering it.

Figure 15. The ratio of 20-year-old population to 60-year-old population by sub-regional unit in 2000-2030. Statistics Finland, Population Projection.



When looking at sub-regional units, it can be seen that the generations entering the labour market are essentially bigger than those leaving it only in few regional centres. This demographic way of measuring suggests that the best labour market situations would be found in the regions of Oulu, Rovaniemi and Jyväskylä. In many regional centres and in and around Helsinki there will be about as much labour entering the labour market as will be leaving it. In all other areas the general trend will be that the generations entering the labour market will be smaller than those leaving it.

- The objectives based on sustainable development of the future regional structure of Finland need to be determined. It also needs to be determined how many centres should be supported in their growth, i.e. how many growth centres could become internationally competitive and viable. When there will not be enough labour for all regions, scattering it would mean insufficiency everywhere, even in developable growth centres.
- At the same time evaluations should be made on the effect of housing policy on regional development. Owner-occupancy dominated housing is a major factor stiffening the labour market and also restraining immigration.

There also needs to be clarifications in policies concerning other regions. In remote regions the labour shortage will result in a narrower base of economic activity as the educated young labour decreases. The predominantly elderly population of these regions will need more and more labour-intensive care services. The decrease in the proportion of children in these areas will computationally free up resources for the care of the elderly. However, as the proportion of the working-age population decreases, the economic base of the care services will be in danger of crumbling, because the tax revenues of the local economy will also decrease.

- We need to come up with solutions to safeguard the supply and sound financing of care services, as the quantitative demand for care will grow most in growth centres, while at the same time the dependency ratio of population in the remote regions will worsen fastest.

8. Women in Working Life

Women form a substantial labour reserve in continental Europe. For example there have been evaluations made in Germany saying that the negative effects the demographic development has on the availability of labour can for the most part be compensated over the next couple of decades by increasing the participation of women in working life.³⁸ This is not the case in Finland where women already participate in working life almost as much as men do. The difference between the rates of employment is about five per cent. Unlike in other Nordic countries, women in Finland are usually employed fulltime.

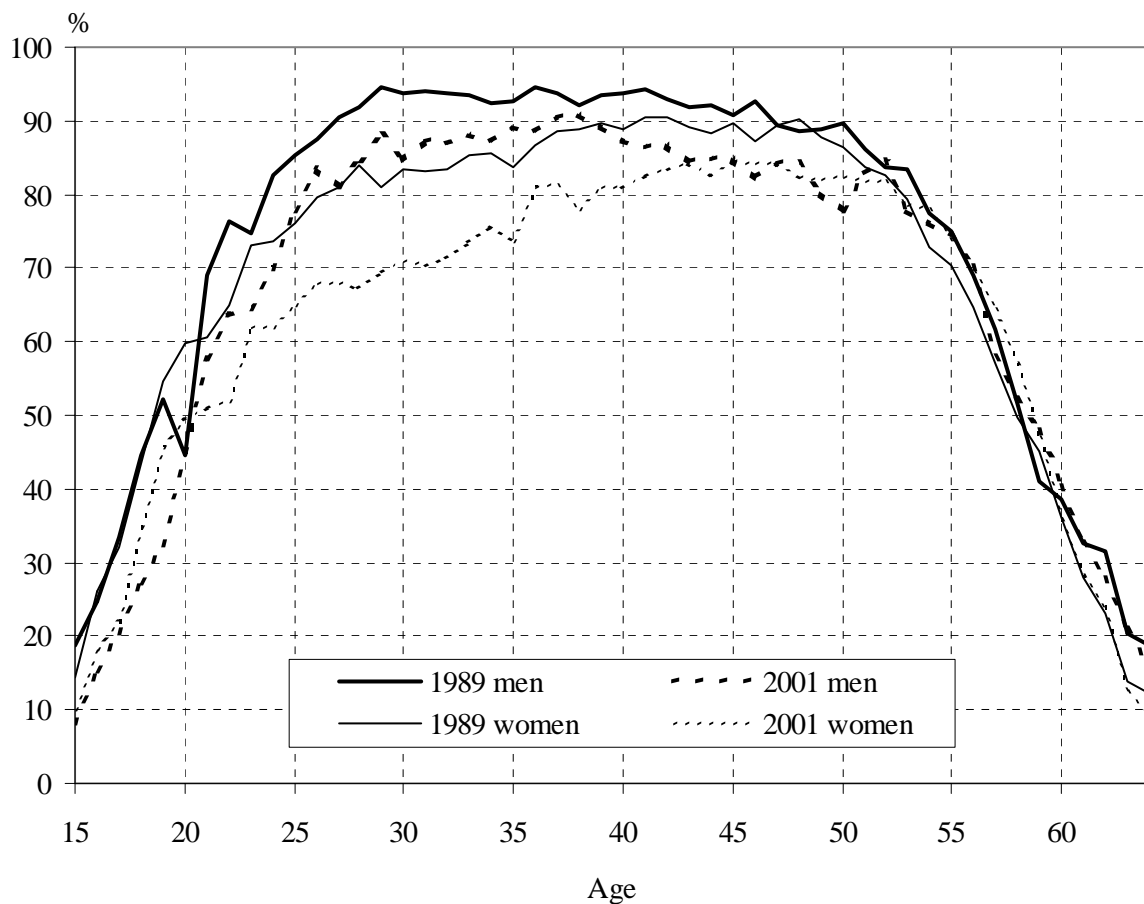
Women's rate of employment was 71.5% before the economic recession in 1989, which is higher than men's rate of employment these days (70% in 2001). The difference between the sexes was about five per cent even before the recession. Though women's rate of employment is anticipated to increase in all age groups without further measures, as the problems created by labour shortage will become more common, additional measures are yet needed to reduce the difference in the rate of employment between the sexes. Studies have shown that improving especially the compatibility between home and working life would

³⁸ Buck, H., Kistler, E., Mendijs, H.G. (2002) *Demographic Change in the World of Work*, Bundesministerium für Bildung und Forschung, Stuttgart.

support a raise in women's rate of employment. Solutions in the form of flexible working hours would provide such an improvement.

The mere labour market situation may help raise women's employment to the high level it was before the recession. Additional measures are needed, however, to maintain women's high rate of employment for a longer period of time and especially to bring it closer to that of men. Solutions for flexible working hours would facilitate bringing home and working life closer together.

Figure 16. Rate of employment by age and gender in 1989 and 2001. Statistics Finland, Labour Survey.



The effects the attempts to raise women's rate of employment will have in the long run also need to be considered. Birth rate in Finland (1.7 babies per parturient) is insufficient these days to maintain the population even at what it is now. It is, however, a realistic possibility that the birth rate might fall even lower.

- Improvements are needed for example in the form of flexible working hours to bring home and work closer together, so that the interim and long-term employment objectives will not come into conflict with each other.

IV ON THE COST OF THESE MEASURES

This report has covered the central measures with which to prepare for the labour shortage caused by the baby boom generation. In addition, solutions have been or are being developed for separate related questions. The nature of this report is strategic; it attempts to show where we can find the greatest potentials to prevent labour shortage. Operative measures and their concrete dimensioning should be done only after the strategic policy solutions have been made. Even so, it is a good idea to determine the approximate amount of the costs, including alternative costs.

Domestic labour for job openings can be drawn specifically from the unemployed reserve. The size of this reserve is described by the fact that the goal of reducing the rate of unemployment by half by 2010 that has often been presented in public would mean the employment of about 150.000 unemployed job seekers or ending their unemployment in another way. This report is based on the target that the activation level³⁹ of labour policy will rise to 40% from the current 20%. This means that the average number of those participating in active measures would have risen in the year 2010 by one third compared to today's figures, if the number of unemployed people has been cut in half.

The report also proposes that the quality of labour political measures be improved, their individuality increased and length extended. The costs for the measures will rise as a result of the qualitative improvements, but the unemployment benefit expenditures will decrease to half of what they are now, i.e. by about one billion euros, because the number of the unemployed will decrease by half. Better employment also increases tax revenues and other benefits.

Getting unemployment to decrease to half of what it is now by 2010 requires not only favourable economic development but also particular solutions that support employment. The costs of the required economic political measures are not discussed here. For employment policy, cutting unemployment in half and safeguarding the availability of labour mean that the activity level must be raised and the effectiveness improved. What is especially needed is that different activities are combined "to build paths to working life."

1. Costs to Utilize Domestic Labour

The following will estimate the magnitude of the public sector's costs, but not how they ought to be divided between the state and the municipalities.

The obstacle especially the long-term unemployed have in becoming employed is the lack of education and training. Taking a degree after finishing basic education requires an increase in long-term education and training in the form of government subsidised labour training as well. If we for example presume that by 2010 a two-year education will be arranged for 30.000 unemployed people to complete a degree after comprehensive school, the expenditure to acquire such education would amount to 380 million euros.⁴⁰ This divided into five years would cost 75 million euros a year. The costs depend on how the education would be

³⁹ Activation level= those engaged in active measures x 100 / those engaged in active measures + unemployed jobseekers

⁴⁰ The computation does not cover the costs of social educational benefits. They and the unemployment benefit are about the same, so the only additional expenditure the government will have will be the cost of acquiring the education.

organized. Raising the admission quotas for educational establishments would minimize the costs.

Another important object in need of longer lasting measures is the subvention of the employment of people with disabilities. If for example a third of the people with disabilities need continuous subvention for their employment, it means additional costs of a little less than 40 million euros a year.

In the report the concern was expressed that the target activation level of the labour reserve may not be reached, because there will not be enough staff to realize the implementation. The wages of the employment service counsellors are modest compared to their demanding duties. If all employment service counsellors received a salary increase of two salary grades, the cost would amount to 1.4 million euros a year. This would not be an adequate increase for everybody. Besides compensation, solutions that guarantee other sufficient services need to be mapped out. For example networking, as implemented in the centres of joint services that include municipalities, The Social Insurance Institution of Finland and labour administration, will increase the efficiency of services.

Other special labour political measures that promote employment are of lesser costs than the ones presented above. The interpretation services for immigrants are estimated to amount to a little over a half a million euros a year. Providing immigrant training for the minimum level of integration requirements calls for a level increase of 9 million euros, and a 16-million-euro single expenditure to bring the previous years' insufficient training up to level.⁴¹

The report also discusses propositions that require no additional costs. The report examines the structural barriers that limit the employment opportunities of those who are not easily employable even when there is enough demand for labour and their labour market readiness, for example occupational skills, would have been improved. Solutions to the essential questions concerning employment problems do not add to the costs but divide them in a different way among the employers (liability for disability pension).

Prevention of unemployment and retirement is more effective and cost efficient than bringing the unemployed and pensioners back to working life. Thus, the action to maintain the ability to work is considered to pay for itself in a few years. A Finnish case study showed that an enterprise's measures to maintain the ability to work were very profitable compared to the costs.⁴² Even though the measures were profitable to the enterprise, they created expenditures for the government.⁴³ The significance of these expenditures will become reduced in the long run.

The propositions expressed in this report on pension policy generally concern mapping out the possibilities to realize the solutions to certain questions, so there is no sense in going into their cost effects in detail. It can be estimated that the potential costs of the discussed pension questions would be low at least in the interim (e.g. incentives to work for those eligible for old-age pension or who already are retired) or the measures would save in other costs like the solutions that support the prevention of disability.

⁴¹ The propositions do not concern work-based immigration, which costs will be discussed later.

⁴² Ahonen, G., Bjurström, L.-M., Hussi, T. (2001). Työkykyä ylläpitävän toiminnan taloudelliset vaikutukset. Työkyvyn ylläpidon tutkimus ja arviointi. Raportti 3. Sosiaali- ja terveystieteiden ministeriö, Kansaneläkelaitos, Työterveyslaitos. Helsinki. [*The Economic Impact of the Action Maintaining the Ability to Work. Maintaining the Ability to Work - Study and Evaluation Report 3.* Ministry of Social Affairs and Health, The Social Insurance Institution of Finland, Finnish Institute of Occupational Health, Helsinki.]

⁴³ Sihto, M. (1997). Työkykyä ylläpitävän toiminnan (TYKY-toiminnan) kustannuksista ja hyödyistä. Sosiaalivakuutus N:o 2. ['On the Costs and Benefits of the Action Maintaining the Ability to Work.' *Social Insurance No. 2.*]

The essential solutions for education and training are of the following magnitude:

- The proposed adjustment of financial aid to university students would amount to an annual expenditure of about 40 million euros. Then again, the cost savings in education accumulated from the financial aid reform would be considerable, even two thirds of the costs.⁴⁴
- The raise of secondary-degree study grants to at least the level of child benefit and the elimination of the means test for those over 18 would amount to annual expenditures of about 50 million euros.
- The continuation of compulsory education at least by one year for those who do not continue in other educational establishments after basic education would cost the public sector roughly over 20 million euros. Then again, the reform would decrease costs, because many of those being left out of the educational system receive subsistence benefits. However, there should be a separate inquiry made into the generality of receiving subsistence benefits. Then again, providing merely a regular placement for the young people who are in danger of displacement usually does not solve the problem, but they often also need individual and intensive tuition and guidance. The costs of the reform would therefore be more than estimated above.
- The raise in the level of education of the adult population according to the fixed-period (years 2003-2007) programme of additional measures would cover 10.000 people a year. The annual costs would amount to about 60-90 million euros, in which case the additional costs would amount to 50-80 million euros. When the utilization of the educational system is intensified, there will be savings reducing the net expenditures.

2. Estimates on Alternative Costs

The short-term alternative costs for many of the above-proposed measures would be the same as the costs of unemployment. The relation is most evident in the case of labour political measures when the alternative to participating in the active measures is remaining unemployed, but it is more indirect when it comes to measures for education and training. The report indicated that making studying more efficient for the young would not increase employment directly, because those who have prolonged their studies are often already working. The effect of the measures would be that in due course the young would be employed in jobs corresponding to their education. The direct consequence at that point would be that filling the jobs the youth had before would increase the employment of the unemployed.

The essential alternative costs to safeguard labour supply are formed by the costs of increasing work-based immigration. They consist of for example various actions that enable integration, like language studies. These estimates are not yet available, because the current study determining the costs of immigration is still going on.

⁴⁴ Kannustava opintotuki. Opetusministeriön työryhmien muistioita 18:2002. [*The Incentive Study Grants*. Work group memos of the ministry of Education 18:2002.] The financial aid reform will accumulate savings in the financial aid expenditures in the long run, because better level of financial aid will enable students to graduate in a shorter period of time instead of going for the maximum time limit of financial aid.

Traditionally the costs to employ the unemployed have exceeded the direct costs of unemployment. The task of safeguarding labour supply will make the active measures directed at the unemployed more lucrative than before, because the alternative costs would also include the costs resulting from increased immigration. The same goes for the measures to increase labour supply and employment that concern working life and pension solutions. It was stated previously that education political measures would result in only a limited increase in employment, because young people often work while studying. There are yet strong grounds for education political measures when it comes to safeguarding adequate labour supply. The report has indicated that the labour reserves are quantitatively adequate still for a long time. The problem lies in the convergence of labour supply and demand. Education political measures will improve the compatibility and thus have a positive effect on employment. As students leave the jobs they held while studying, which jobs often do not require particular occupational skills, the jobs will become available for other job seekers, for example the unemployed. The graduated students again can take jobs that cannot be filled by people who do not have the special skills.

The most important alternative cost, however, is caused by the effect the labour shortage will have on economic development. As it is stated in Labour Force 2020 report⁴⁵: “On the background of the slower rate of growth is the decrease in labour supply that is beginning to emerge during this decade.” The growth projections presented in the report are based on the assumption that the increasing labour shortage will slow the economic growth down by 0.2% annually. Though the retardation is modest in percentage, it yet translates into a 270-million-euro fall in the national product. In addition, over time the retardation will become notable. According to the projection, the growth would slow down by 2% in ten years, at which point the national product would already have gone down by 2.7 billion euros.

3. Summary

The above calculations are an attempt to illustrate the magnitude of the costs. The calculations reveal the large variations in the costs incurred by public sector. Very important measures may cost only a little. The overall result of the cost estimates is that they show that the proposed measures are clearly more expensive than the present ones. This is caused by for example the fact that the proposed measures often are more individualized and of a longer duration. Regardless, the activation of the labour reserves into working life will be clearly worth the effort, because the alternative costs caused by the slower economic growth are so vast.

⁴⁵ Osaamisen ja täystyöllisyyden Suomi. Työvoima 2020:N loppuraportti. 2003. Työministeriö. Helsinki. [*The Finland of Knowledge and Full Employment, The Final Report of Labour Force 2020.* (2003) Ministry of Labour, Helsinki.]