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Labour Force 2025. Full employment, high productivity and good jobs will provide the foundation for well being as the working age population diminishes

SUMMARY

The main objective of this report is to assess the development of the labour market in a situation where the population of working age will start to decline from 2010 on. In the initial situation unemployment is still high. Although employment has improved, it has still not reached the level required to ensure full employment and sustainable financing of a welfare state. With global restructuring and technological advances jobs are created and lost. Does the net trend correspond to the employment targets? The purpose of this analysis is to seek answers to this question and to identify possibilities for finding sustainable solutions.

The review draws on an assessment of the basic scenario, which is the probable development based on current knowledge. With the help of this assessment it is possible to identify the challenges that lie ahead and the need for improvement. These are described in the target scenario, which also examines the possibilities of achieving the targets for employment, reducing unemployment and growth. In addition, the report looks at the risks, such as a gradual slowing down of development or the threat of shocks coming from outside and our ability to adjust to these. It stresses the need for an attitude of foresight in strategy and policy choices rather than simply reacting to the problems encountered.

The report is the fifth in a series of reports on employment appearing every four years, the first of which was published as Labour Force 2000 at the beginning of 1991. The reports are a continuation of the less comprehensive analyses of labour demand and supply that were drawn up regularly from the mid-1960s and occasionally before that.

Employment has improved

The number of people employed in 2006 was about 390,000 and in 2007 slightly more than 400,000 higher than in 1994, at the lowest point of the 1990s' recession. Slightly more than half of the increase in employment is reflected in lower unemployment and slightly less than half in an increased labour supply.

According to the figures provided by the Labour Force survey, unemployment had almost halved in 2006 compared with the peak in 1994. The number of unemployed jobseekers had fallen by 237,000 from the peak figures of the recession.

The growth in the labour supply is partly attributable to an increase of 103,000 in the working age population (15-64 years). The labour supply has increased by about the same amount due to the fact that the participation rate of the workforce has returned to almost the same level as before the recession. Half of the increase in the working age population is the result of net immigration.

The number of hours worked has risen less than the number of employed people, because the average working hours have decreased since 1990 by about 100 hours, mainly due to an increase in part-time work. The increase in part-time work during the years 1990-2006 was 145,000 people.

The employment rate (the percentage of employed people in the population aged 15-64) fell from 74 per cent before the recession to its lowest rate at 60 per cent in 1994. In 2006 it rose to 69 per cent. The number of employed people in 2006 was still 60,000 less than in 1990. However, the labour force increased by 61,000 people and according to the Labour Force survey figures the number of unemployed was thus 121,000 higher. There were 147,000 more unemployed jobseekers than before the recession. The total number of unemployed jobseekers (250,000), unemployed people covered by training and subsidised employment programmes (85,000) and those on unemployment pension (46,000) was 380,000. These figures reflect the difficulty of getting people who have become unemployed or are only occasionally employed and repeatedly in training and other programmes back into permanent jobs.

The favourable development of employment in the years 1994-2006 has been made possible by the fact that economic growth averaged 3.9% annually, well over the 2.6% growth of work productivity per working hour. The rise in employment is significant considering that the slowing of production growth due to a downswing in exports caused a temporary deterioration of employment in the years 2003-2004. The falling trend in unemployment also came to a halt, although unemployment did not increase on an annual level. The rapid economic growth of the past few years helped to boost employment so that the number of employed rose by approximately 100,000 between the years 2003 and 2007.

It is estimated that during the current decade economic growth will reach an annual rate of almost 3 per cent, even though it is slowing down after the mid-decade peak. This is close to the long-term average growth since the early days of industrialisation and it is also close to the growth figures for the period 1975-1990. In the post-war years 1946-1975, annual growth reached 5 per cent. In the period from 1975-2010 average growth will be about 2.5%, i.e. half of the growth in the post-war boom years, and on account of the 1990s' recession, less than the average long-term growth.

According to the basic scenario, growth will slow down from the 2010s on, so that in the years 2010-2025 average annual growth will be about 2 per cent. In the target scenario, average growth will be about 0.5 percentage points higher. In both alternatives the growth rate will slow down gradually over a long period. However, growth will continue and this will allow the standard of living to rise.

The national product per capita grew in the period 1947-1975 by an average of 4.7 per cent annually. In the years 1976-90 growth was 2.6 and in 1991-2006 only 1.8 per cent annually. The basic trend implies that annual growth will be 1.5 per cent in the years 2010-2025. In the target scenario, growth would reach almost the same level as in the period 1991-2006, i.e. almost 2 per cent annually. In the past, growth was rapid because Finland was able to catch up with more developed countries. The same phenomenon is now being seen in the growth figures for many Asian countries.

The number of jobs has mainly increased in the service sector. Compared with the lowest point of the recession the increase in service sector employment has been 367,000 jobs out of a total increase of 390,000. Employment in industry and construction has also increased slightly from the figures of the recession years. In the basic scenario, employment in the service sector will continue to increase, but jobs in primary production and industry will decrease. In the target scenario the fall

in primary production and industrial jobs will be less, with employment in construction increasing slightly.

Preparing for a shrinking working age population

For Finland the year 2010 will be an unprecedented turning point in terms of population, as the number of people of working age will begin to fall. This decline will continue throughout the whole review period despite anticipated immigration. The basic reason for this development is the ageing of the post-war baby boom generation and those born in the 1950s, which will have many different impacts on the economy and on society in general. It is essentially a question of how well the economy and society can adapt to the changes this will bring.

In terms of figures, the demographic changes will mean that in the years 2010-2025 the population aged between 15 and 64 will decrease by 265,000, i.e. by about 17,000 a year, even if net immigration averages 7500 persons a year. During the same period, the number of those in the prime of working life, between 20 and 49 years old, will fall by 80,000, or 5000 a year. The number of children born is still declining, as the age groups of childbearing age are smaller than in the past. On the other hand, the number of over 65 year olds in the population will increase from about 870,000 in 2006 by half a million to 1,370,000 in 2025.

The most important objectives of economic and social policy are to maintain a high employment rate and a low unemployment rate. If achieved, they make it possible to build a sustainable foundation for financing the costs of a welfare state and for improving the well being of all population groups. High employment and low unemployment are also vital for ensuring that the decline in the working population does not lead to a shortage of labour.

To achieve good development in terms of employment, it is important to balance labour supply and demand. If this is done, structural factors will not lead to unemployment or problems of labour shortage. When the working age population starts to decline at the end of the 2010s, it will be decisively important to develop employment and competence and at the same time to increase productivity. This will ensure that favourable development continues. Immigration for employment reasons will increase and diversify the supply of labour, which in turn promotes positive development as the working age population declines.

The basic trend in the Labour Force 2025 report does not as such yet guarantee full employment, even though the general direction is towards lower unemployment. The employment rate will not rise above 70 per cent until the first half of the 2010s, when unemployment figures (according to the Labour Force survey) will approach 150,000, and the number of unemployed job applicants registered with employment offices will fall below 200,000.

In the target scenario, the employment rate would rise at the beginning of the 2010s to 72 per cent and by the mid-2010s it would come close to 75 per cent. Accordingly the unemployment rate would go down to 4 per cent, which is below the level it stood at before the recession of the 1990s. It is essential to eliminate structural long-term unemployment, which would mean that the unemployment connected with structural change would be short-term and would not cause the same problems as prolonged unemployment.

In order to bring about the target development, measures must be taken in different sectors of social policy. These include: 1. Innovative thinking, promoting the effectiveness of the labour market and the quality of working life in ways that support growing productivity. 2. Placing emphasis on an active labour policy in order to employ the reserves of unemployed and those who are not part of

the labour force and to improve the functioning of the labour market. 3. Improving the operating conditions for the SME sector and other labour-intensive fields. 5. Developing education and training over a wide spectrum (including on-the-job training) so that the competence of the workforce corresponds to the needs of working life. 6. Developing part-time work and other arrangements for adjusting working hours and systems of organising work to suit both the wishes of employees at different stages of life and the needs of the employers for flexible and varied working hours.

Productivity and employment targets are complementary

Good employment development combined with good productivity development will promote a rising standard of living, as more and better quality results can be achieved with the same resources. At the same time, improved productivity promotes success in international competition. This is a crucial prerequisite in an open economy, to ensure that in a situation of structural change, sufficient new jobs are created to replace those that are lost, and that existing operations can be continuously improved and updated, thus avoiding unnecessary loss of jobs.

Combining high employment with high productivity is a challenging target. This is reflected, at least temporarily, in the growth of productivity gaps. In order to achieve the target, productivity must be raised continuously in the export sector and in production, which competes with imports. However, not all sectors have equal chances to raise their productivity, and the employment of people with a lower level of education or training presupposes the existence of low-productivity jobs.

Permanent employment relationships and commitment to work have positive impacts on productivity. Learning on the job and the benefits it brings are not easily achieved in short-term jobs. As the labour force diminishes, the importance of permanent jobs and commitment to work will no doubt increase. For the whole of society, it will become increasingly important for a person to find new work when jobs are lost due to structural change so as to avoid prolonged unemployment. One way of countering this risk is the so-called change security system.

From the perspective of curbing unemployment, rapid productivity growth does not necessarily imply similar threats to those that arose during the 1960s, when the labour supply was growing rapidly and even a very high rate of economic growth was not enough to prevent unemployment and emigration of the workforce. In the 2010s the question will not be whether enough jobs can be created for a growing workforce, but whether new jobs can be created elsewhere in the economy as vacancies created by retirement remain unfilled in some businesses or other work communities. This can by no means be taken for granted in a situation where structural change is global.

With a view to raising productivity, crucial factors include taking an innovative approach, the networking characteristic of an information society, creativity, and focusing on the new. In the target scenario one of the key issues is how to link improved productivity with full deployment of the available labour resources. This in turn presupposes that the demand and supply of labour are more or less equal, in which case better growth and employment are associated with faster growth of work productivity. With a view to improving competitiveness, it is important to consider not only the productivity of work but also that of capital and natural resources, where greater productivity means better utilisation of material and other resources. The combined effect of the different productivity factors is better overall productivity, which in turn enables growth and the creation of more employment opportunities. Growth based on better utilisation of resources also contributes to sustainable development.

Making full use of the labour reserve

The most important labour reserve is still high unemployment. In reducing unemployment, it is a question both of finding work for those currently unemployed and preventing the emergence of new long-term unemployment. Concurrently with this, promoting longer careers and encouraging people to stay on at work are important means of achieving a high work participation rate in a situation where the population is ageing. Women's participation in work outside the home is lower in Finland than in the other Nordic countries. It is also important to ensure that young people's education and their transition to working life is as successful and complete as possible, without marginalisation. Those with impaired work capacity and the disabled have important potential as a workforce. In addition, by increasing the participation rate of foreigners living in Finland we can improve their situation and increase the diversity of the labour market.

According to the work group's estimate, these different groups represent at present and in the near future a potential of about 300,000 people who could be employed. Even in a good economic situation, structural difficulties may be an obstacle to employment: supply and demand do not meet or correspond sufficiently. It is essential to achieve a closer match between education and work. This objective can be promoted by supporting labour market mobility and developing the so-called intermediate labour market, so that those who are less easily employable can gradually be integrated into the open labour market. Important means of accessing potential workforce include solutions involving working hours and work organisation combined with other ways of improving the quality of working life. Offering full-time work to people working part-time against their will increases their work input, while providing the opportunity to work part-time helps to keep people who are unwilling to work full-time on the labour market.

Ageing people can be encouraged to stay on at work by offering financial incentives, but also by ensuring that in terms of quality, working life is a sufficiently attractive alternative to retirement. Working life development and age management programmes will play an increasingly important role in the future. Since the baby boom generation have participated more actively in working life than previous generations, there are good opportunities for increasing the participation of the older age groups in working life (the age group or cohort effect). To succeed here, employment development must be good and it must be promoted. In terms of postponing retirement, favourable economic and employment development is an important issue. Without that, it is difficult to achieve sustainable solutions.

Even among those who have already retired, there is a large group of people who are active in many ways. Often they still work even after retirement. They also build, look after grandchildren, are consumers and in general through their activities contribute to the well-being of society.

Increasing competence is a key to success

Apart from statistics, a key issue is the development of know-how. Decisive for the productivity of the work input is the type of know-how and development potential that employed people represent. Developing competence is thus an answer to the problems of a shrinking working age population. In addition, it is crucial to develop competence because the requirements are constantly increasing and changing. By developing competence we can also improve the balance between labour supply and demand, to avoid a situation where there is a shortage of labour in one place and unemployment in another. To reduce unemployment and balance the labour demand and supply, it is essential to

ensure an active labour policy with sufficient volume and impact. The effectiveness of labour policy can be enhanced by means of taxation and by promoting regional and professional mobility.

In developing competence, it is vital to develop all labour resources and to ensure that education reaches the whole population. This makes it possible to use all the resources of society equally and in the best possible way. High employment also has importance because it helps to spread income more evenly in society and there is thus less need for supplementary systems. High competence requirements imply both higher education and a high basic level of vocational competence. For skilled workers, not only manual skills but also continuous development, the ability to make decisions and solve problems independently and to find new solutions play an essential and growing role in work.

An important question in the next few years will be how to ensure employment for the current workforce potential. On the one hand, the answer is education, but at the same time there is a need to develop tools and services that support people in finding employment. Solutions that narrow the tax wedge are needed as well as employment subsidies and ways of developing them. It is important to emphasise that, even though all the measures do not lead directly to employment on the open labour market, by offering an active alternative to unemployment they help to prevent marginalisation, to maintain the person's employability and to solve the problem of labour shortage in the longer term. In addition, subsidised and less productive work brings a yield and therefore benefits the national economy. At the same time, as many people as possible earn at least part of their own livelihood by working. A job that does not have too high a productivity threshold is the first step for many people who are long-term unemployed or otherwise outside the labour market to re-enter working life and eventually find a job with higher productivity.

In situations of rapid structural change on a regional level, more effective special measures may be needed to make use of the competence potential.

Structure of the report and networking

The report first discusses the changes and integration trends in the global operating environment as a background to the development of Finland's economy and employment. Then it deals with some central questions relating to the labour market in the next few years and in the longer term. The demand for labour is analysed on the level of the national economy and by sector, and the labour supply is examined on the basis of the demographic trend and the rate of participation in working life. Next, the report analyses the balance between labour supply and demand. The change in labour demand by occupation is derived from trend estimates by sector, taking into account the change in the occupational structure of different sectors. Also taking into account the loss of workforce due to retirement, the result is the number of vacancies by occupation, which can provide a basis for estimating the education and training needs. The employment estimates have been made on a regional basis. Questions relating to working life have been discussed to a greater extent than before, because this was a special wish expressed in feedback. Quantitative estimates have been made on the basis of the basic scenario and the target scenario. In addition to these, calculations have been made on alternative development trends.

This project was implemented through extensive cooperation between different administrative domains and organisations under the leadership of the Labour Administration. The cooperation took the form of networking, and contributions were received from different administrative domains, on the interfaces where their tasks relate to questions of employment and working life. The division of

labour was thus developed from a very practical starting point. The cooperation network also drew on expertise from labour market and local government organisations and from the regional level.