



# **BANK OF FINLAND BULLETIN**

**BANK OF FINLAND ARTICLES ON THE ECONOMY**

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# Shortage of new firms jams labour market recovery

30 JUN 2015 2:00 PM · BANK OF FINLAND BULLETIN 3/2015 · ECONOMIC OUTLOOK · JUUSO VANHALA, MATTI VIRÉN

Unemployment is already higher than in the recession year 2009. At the same time, unemployment growth is due less to new unemployment spells and increasingly to weaker employment opportunities for the already unemployed. The number of new job vacancies has decreased in recent years, and the vacancy filling rate has slowed down. One reason behind the shortage of new jobs is the lack of new firms, which create the largest number of jobs. The frozen labour market will slow restructuring of the economy and weakens the outlook for growth.



## Restructuring takes place via the labour market

The number of new and terminated spells of employment and unemployment is much greater than suggested by (net) changes in employment and unemployment. According to the employment service statistics of the Ministry of Employment and the Economy, the number of unemployed jobseekers has increased by approximately 100,000 since 2008. In the same period, the monthly average of new and terminated spells of unemployment was over 65,000.

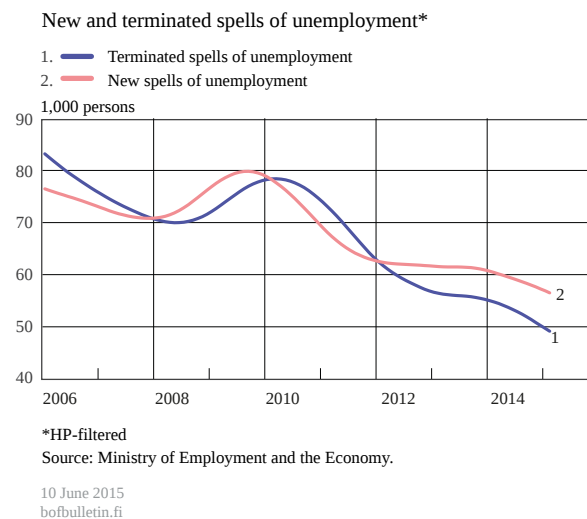
Large worker flows are of key importance for restructuring in the economy. Large flows between employment and unemployment also mean that many workers may have spells of unemployment but, at the same time, the number of persons moving from unemployment to employment is large and the spells of unemployment remain relatively short on average.

## Slower flows between employment and unemployment

The 2008 financial crisis reflected strongly on both new spells of unemployment and terminated spells of unemployment, but subsequently both these flows between employment and unemployment have decreased significantly.<sup>[1]</sup> Since 2011, the figures have been over 30% smaller than before the financial crisis.<sup>[2]</sup>

As a result of the slower flows, fewer workers become unemployed. On the other hand, the probability of finding employment is lower and the average duration of unemployment longer. Flows from short spells of unemployment to employment have decreased relatively more than flows from longer spells of unemployment.

Chart 1.



The number of long-term unemployed already exceeds 100,000, which corresponds to approximately one-third of unemployed jobseekers, and the number is rising. Protracted spells of unemployment typically lead lower job finding rates (due to e.g. skills erosion or loss of labour market contacts), and may even turn cyclical unemployment into structural unemployment.

1. Even though all the spells of unemployment do not end with employment, these figures conceal a significant decrease in the number of persons employed (specifically persons who have found a job themselves).

2. The quarterly figures on worker flows computed by Schauman, Vanhala and Virén (2014) from Statistics Finland's Labour Force Survey are smaller and a similar slowing of worker flows cannot be observed. This is due to the time aggregation bias in the measurement of worker flows which is due to the long intervals between measurement points. According to Shimer (2012) and Nordmeier (2014), worker flows measured at different points in time underestimate total worker flows, as worker flows in opposite directions between points in time (e.g. 3 months) offset each other.

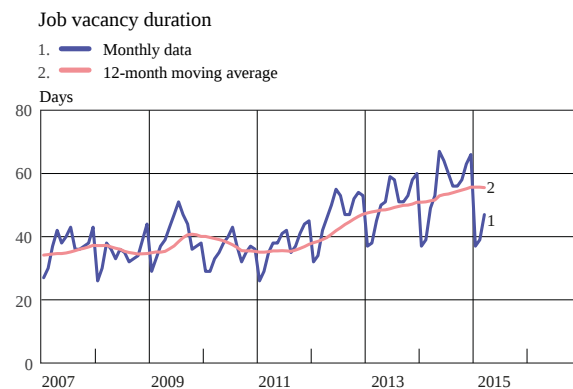
The developments in Finland are not unique. For example in the United States, labour market flows have slowed even more significantly, and the trend has been the subject of intense debate. The changes are considered to have a negative effect on the dynamics of economic growth.<sup>[3]</sup>

## Job vacancies harder to fill

The decrease in terminated spells of unemployment reflects the increasing difficulty in filling vacancies. Even though the number of unemployed jobseekers has risen, the vacancy filling rate is lower.

The number of vacancies has remained virtually unchanged since 2010, but they remain open for a longer period and the number of filled vacancies has decreased. This is accompanied by a decrease in the number of new vacancies, even though a slight upward trend has been witnessed during the past year. The vacancy duration in 2010 averaged 55 days, or 10 days more than before.

Chart 2.



Source: Ministry of Employment and the Economy.

10 June 2015  
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The increasing problems in filling job vacancies partly reflects the mismatch related to structural changes in the economy as the jobs available do not correspond, in terms of e.g. skills requirements and location, to the unemployed jobseekers.

An examination of the number of vacancies per unemployed jobseeker in professions with the largest deviation in the ratio of vacancies and the number of unemployed shows that there are major differences in labour market tightness between the various professional groups (Table 1). The figures reflect the ongoing structural changes in the Finnish economy, in which the number of jobs has decreased in industry and increased in services. The changes between 2006 and 2015 are minor. This is consistent with the longer vacancy duration.

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3. Davis – Haltiwanger (2014).

**Table 1.****Vacancies per unemployed jobseeker,  
examples from selected professions 2006 and 2015**

<b>Highest ratio 2015</b>	<b>2006</b>	<b>2015</b>	<b>Lowest ratio 2015</b>	<b>2006</b>	<b>2015</b>
Other sales workers	1.57	3.23	Electronics and computer mechanics	0.08	0.04
Nursing specialists	2.88	3.06	Ships' deck crews and related workers	0.06	0.07
Sales and purchasing agents	1.58	2.41	Wood treaters	0.04	0.04
Medical doctors	1.63	1.74	Textile, fur and leather products machine operators	0.04	0.09
Vehicle cleaners	..	2.08	Painters, building cleaners and related trades	0.07	0.05
Agricultural and forestry labourers	0.08	1.92	Forestry and related workers	0.01	0.04
Market salespersons	1.56	1.21	Printing trades workers	0.05	0.02
Food and related products machine operators	0.32	2.0	Telecommunications and broadcasting technicians	0.01	0.02
Newspaper deliverers	0.59	1.01	Artisans	0.09	0.01
Nurses and midwives	1.15	1.13	Garment workers	0.03	0.03

The figures refer to January 2006 and March 2015.

Source: Statistics Finland.

**Start-up firms create jobs**

Even though the majority of jobs are in large and established firms, new jobs are generated by new firms. In the first years following entry, a significant portion of start-up firms exit and thereby eliminate the jobs they have created. The surviving businesses, in contrast, grow and hence also create jobs at a rapid pace compared with older, established firms.<sup>[4],[5]</sup>

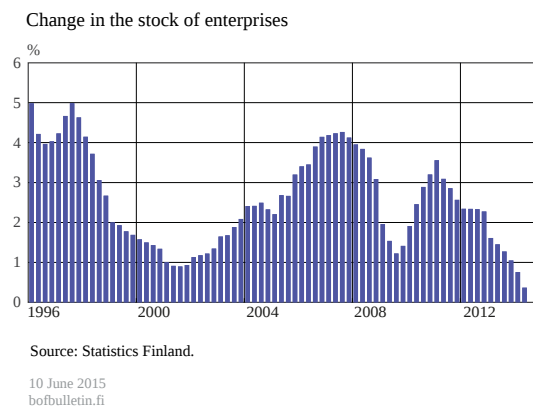
4. See e.g., Haltiwanger et al. (2013) and Henrekson – Johansson (2010).

According to a recent OECD analysis covering 18 countries, firms five years old or younger were in 2001–2011 the primary contributors to job creation in all the countries analysed, including Finland. Even during and after the global financial crisis, young firms created more jobs in net terms, despite the fact that they were the ones hit hardest by the crisis. The majority of job losses were the result of downscaling by older firms.<sup>[6]</sup>

Against this background, corporate sector dynamics plays a key role in labour market developments. According to Statistics Finland, the number of enterprise openings has decreased in Finland in recent years, and the number of enterprise closures has increased. The stock of enterprises has thereby decreased in Finland (Chart 3). Weak developments in the number of new firms that typically create jobs is cause for concern in terms of the creation of new jobs.

Reasons for the low number of jobs created should thus be sought from the factors underlying the decrease in business start-ups, e.g. uncertainties related to the operating environment, cost level or bureaucracy-related factors.

Chart 3.



The decrease in the number of enterprise openings may explain the sluggish labour market dynamics and the rise in unemployment. The developments are not necessarily directly due to labour markets, even though labour market institutions and corporate dynamics may be closely linked. Labour market institutions, e.g. employment protection legislation and employment benefits, may have various unintended incentive effects in addition to the intended distributional effects.<sup>[7]</sup>

The operating environment of firms, and the factors that affect it, should be taken into consideration as part of employment policies. As job creation is concentrated in new

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5. In the economics literature, e.g. Haltiwanger et al. (2013) discuss up-or-out dynamics, in which start-ups have a small likelihood of surviving following market entry but surviving businesses grow very rapidly.

6. Criscuolo et al. (2014).

7. We would like to mention two examples from the economics literature: 1) according to Bartelsman et al. (2011) and Tuomaala (2015), high severance costs may restrict companies' market entry and risk-taking because it makes market exit or downsizing costly, and 2) Acemoglu and Shimer (2000) argue that unemployment insurance can provide workers protection that encourages them to seek jobs in firms with a high risk of market exit.

firms, policies aimed at removing restrictions in the business environment for start-up firms may be more effective in terms of job creation than policies aimed at SMEs in general. Policies should remove barriers to market entry, promote an innovation-friendly environment and enable the creation of jobs in firms with growth potential. In this, the functioning of labour and commodity markets as well as legislation (e.g. bankruptcy legislation) can play a role.<sup>[8]</sup> Well-functioning financial markets direct finance to productive firms with growth potential.

Current trends in labour market flows, stocks, vacancies and enterprise start-ups indicate that in the near future, too, the Finnish labour market will face major problems. The reasons for the paralysis of the Finnish labour market are, however, not fully understood. It is due, on one hand, to the mismatch related to structural change in the Finnish economy and, on the other hand, to a lack of firms that create jobs.

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8. Criscuolo et al. (2014).



## Tags

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- [firms](#)

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