

The series of articles appearing in this special issue of the Bank of Finland Monthly Bulletin deals with various aspects of employment and employment policy in Finland. The authors are experts at the Economic Planning Centre and the Ministry of Labour, except from one who is a research fellow of the Nordic Council of Ministers.

In the first article, which was published in the January 1984 issue of the Monthly Bulletin, *Eero Tuomainen* and *Antti Romppanen* examine developments in the economy and employment over the past two decades or so from the point of view of both long-term structural changes and cyclical variations. They pay closer attention to the medium-term stabilization programme introduced in 1977, comparing the outcomes with the targets set at that time. Economic policy has supported growth and employment, even if the targets have not always been attained.

The other articles in the series have not been published before. *Pirkko Aulin-Ahmavaara* examines developments in the supply of and demand for labour in the 1980s. The growth in the supply of labour is expected to decelerate significantly in the second half of the 1980s, mainly for demographic reasons, whereas the demand for labour will depend essentially on economic growth. If growth is assumed to be 3 per cent per annum, unemployment will not fall from its present level.

*Altti Majava* discusses labour market problems and the factors affecting them. He points out that the manpower authorities cannot solve these problems alone; rather, it is a question of priorities in economic policy as a whole. He also deals with the income maintenance of the unemployed.

*Nillo Sääski* examines selective employment measures in Finland. He describes various selective employment subsidies used to encourage firms to increase their use of labour. Although such arrangements have considerable drawbacks — they can displace competing production, for example — they may, if correctly targeted, have a role to play in manpower policy.

*Henri J. Vartiainen* discusses the potential for local initiatives for employment creation. With growing unemployment and the inadequacy of conventional fiscal measures for coping with it, there is added importance in fostering local initiative and entrepreneurship. Initiatives and policies may take many forms; a feature common to them all is the grass-roots approach and the tapping of creative resources.

The needs of working life in the planning of Finnish education is the subject of the article by *Aarre Heikkilä* and *Pentti Vuorinen*. Quantitative forecasts of the needs of working life are used in educational planning in Finland and, although considerable uncertainty is attached to these estimates, they have been considered useful, since decisions on quantitative targets in education have to be made in any case. Nevertheless, in order to maintain flexibility, long-term planning is carried out at a fairly general level; planning should be a continuous process in which plans are revised at regular intervals.

*Ilse Koli* deals with Nordic co-operation in the field of manpower policy; the Nordic countries have had a common labour market since 1954. Co-operation occurs at several levels, both multilaterally and bilaterally. The importance of the latter in the case of Finland and Sweden can be explained by the high mobility of labour between these countries and the size of the Finnish labour force in Sweden.

# ECONOMIC POLICY AND EMPLOYMENT

by Eero Tuomainen, Lic.Pol.Sc.  
Director of the Economic Planning Centre  
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## LONG-TERM STRUCTURAL CHANGE AND POLICY GOALS

In 1960, the number of employed persons in Finland amounted to 2.1 million, of which almost 0.8 million were engaged in agriculture and forestry. In 1983, employment totalled 2.4 million, with 0.3 million employed in agriculture and forestry, 0.8 million in industry and construction and 1.3 million in the service sector. As these figures suggest, structural change has been more pronounced in Finland than elsewhere in Europe.

In Finnish economic policy during this period of change, economic growth and the expansion of employment in the manufacturing and service sectors have been accorded clearly higher priority than the maintenance of stable prices and balance on the current account. The emphasis has been on promoting structural change, activating the labour force and improving vocational training, supporting investment and offering tax incentives for saving. New outlets for growth have been sought by widening Finland's participation in the international division of labour.

The economic policies pursued in Finland have resulted in a fairly rapid growth of output, and, in contrast to European industrialized countries in general, employment has, until recently, also risen in industry.

The transition to slower growth in the mid-1970s as a result of developments in the international environment has altered the situation considerably. Capacity utilization has fallen and the rate of unemployment risen. Sectoral shifts in the economy have slowed and internal migration abated.

The exodus of labour from agriculture has slowed to a trickle and industry is no longer increasing its workforce to any significant extent. Moreover, the growth of employment in the service sectors has decelerated, mainly because of the slowdown in the expansion of the public sector.

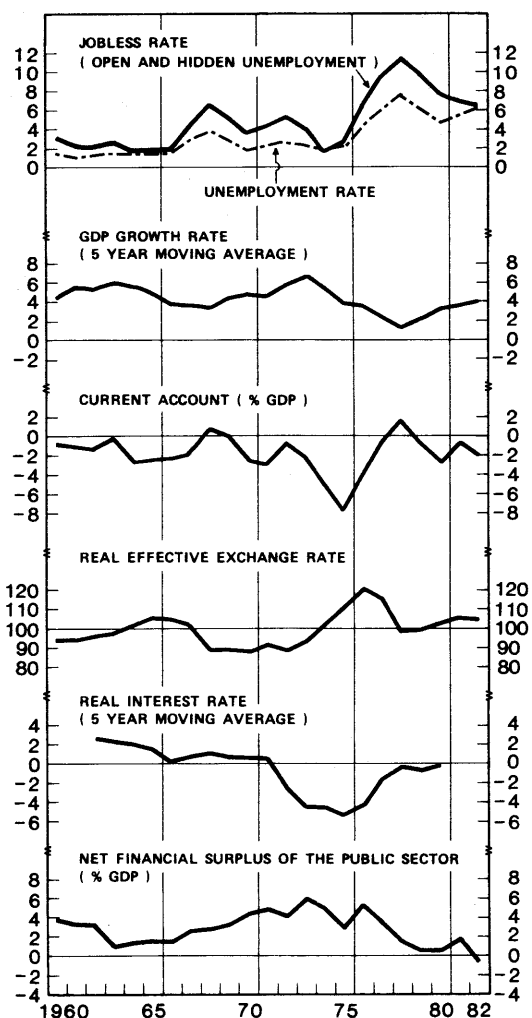
Continued efforts to maintain a high level of economic activity have resulted in an almost constant deficit on the current account and an increase in foreign debt. Moreover, the rate of inflation has been distinctly higher in Finland than in the OECD-countries on average. External indebtedness engendered by current account deficits and losses in competitiveness caused by inflation have necessitated significant devaluations of the Finnish markka in 1967, 1977–1978 and in 1982.

## CYCLICAL DEVELOPMENTS

Over the last 20 years, the rate of open unemployment has varied between 1.2 and 7.5 per cent and the jobless rate, open and hidden unemployment taken together, between 1.7 and 11.5 per cent. The lowest unemployment figures have been achieved during the final phases of inflationary growth (1965–1966 and 1974–1975) and hence have proved no more than transitory. On the other hand, the unemployment figures have been at their highest towards the end of stabilization periods and at the beginning of upswings (1968 and 1978).

The current account balance has fluctuated in line with economic activity, but these fluctuations have been noticeably more pronounced after the first oil crisis than before it. In Finland, the fluctuations in the current account

## KEY ECONOMIC INDICATORS IN 1960–1982



have been more closely associated with variations in the rate of investment than has been the case in other countries in general. It is worth noting, however, that over the past five years the current account deficit has been at its long-term average level despite a 4 percentage point fall in the investment rate. This is partly explained by the relatively large deterioration in the terms of trade since the mid-1970s. From the early 1970s till 1982, the terms of trade declined by 10 per cent.

Because of the large devaluations, high rates of inflation and the unstable exchange market conditions of recent years, there have been

very sharp movements in the markka's real effective exchange rate. The upward trend in 1960–1966 was due to inflation, the fall in 1967–1972 to devaluation, the rise in 1972–1976 to very high inflation, the fall in 1977–1979 to devaluation and the rise in 1979–1982 to inflation. The markka was undervalued in the four-year period preceding the first oil shock and overvalued in the subsequent four years. In the early 1980s, the real effective exchange rate was more than 10 per cent higher than in the early 1970s, while over the same period the terms of trade declined by 10 per cent. Together, these factors placed the current account under increasing pressure, which was only relieved by a devaluation in the autumn of 1982. Following this, the exchange rate settled at close to its long-term average.

The real interest rate has traditionally been low in Finland. This has tended to increase the propensity to invest, reduce the requirement for return on capital employed and has perhaps also resulted in factor proportions being too capital-intensive. The low real interest rate has, together with inflation, encouraged the corporate sector to increase the share of debt capital in its financing of capital formation.

As a rule, net lending of the public sector has been positive and relatively high due to the fact that industry, agriculture and housing production were partly financed through the central government budget during the period of rapid structural change. However, there has been a marked change since the oil crisis. Whereas public sector net lending accounted for 6 per cent of GDP in 1973, the public sector had become a net borrower by 1982, showing a net financial deficit of 0.7 per cent of GDP. This reflects a clear decline in general government financing of both housing production and industry.

## ECONOMIC POLICY AND EMPLOYMENT AFTER 1977

The most important external changes influencing the Finnish economy in recent years

have been the faster pace of international inflation, the rise in international interest rates, sluggish export demand and weaker terms of trade. All these factors have to some degree impeded the realization of medium-term economic policy targets in Finland.

#### ECONOMIC POLICY IN 1977–1982

	Target	Actual
Average growth rates 1977–1982:		
GDP	4 ¼	3.9
Export	7 ¼	6.6
Public consumption	2 ¾	4.1
Consumer prices	5	9.8
1982:		
Open unemployment, %	2 ½	5.7
Current account, % GDP	-1	-2
Net foreign debt, % GDP	21	16.7
Gross tax ratio, % GDP	38 ½	36.2

Of the targets set by the Government in 1977, combatting inflation and reducing unemployment have been the least successful. Apart from a brief period in 1978–1979, inflation in Finland has remained higher than the international average.

The fact that the unemployment rate has consistently exceeded its target level can only partly be attributed to slower growth of output than assumed at the time the targets were set. On the other hand, employment in the public sector has grown more than forecast. The higher-than-estimated unemployment rate is mainly due to the supply of labour growing more than forecast. The most obvious reasons for the increase in the labour supply would seem to be the net migratory inflow from Sweden, improved vocational training, better health of the population and higher participation rates, especially among women. Contributing to this last development has been the increase in women's vocational training, better child daycare facilities and the separate taxation of spouses introduced in the early 1970s.

The share of foreign debt in GDP has fallen more rapidly than anticipated by the Govern-

ment when setting the targets. Partly, this is because corporate sector investment has not grown and high interest rates abroad have made firms less interested in foreign borrowing. By contrast, the central government's foreign debt has grown considerably, its share in GDP doubling since 1977. While the State's share in Finland's total foreign debt was 15 per cent in 1977, it amounted to almost a half in 1982. The State's foreign debt has been allowed to grow so as to avoid a rise in the tax ratio and to safeguard the financing of private investment from domestic sources.

The most important changes in economic policy over the last few years have been as follows:

- halting the rise in the tax ratio by regularly adjusting tax schedules for inflation
- alleviating corporate taxation and intervening as little as possible in firms' problems, in keeping with the OECD's principle of positive adjustment
- halting the rise in direct labour costs despite the increase in social security benefits
- allowing the public sector debt to grow whilst reducing central government lending in support of housing production and industrial investment
- increasing the funds available for research and development and enhancing vocational training
- reducing the areas where administered rates of interest are applied, strengthening the position of the unregulated market interest rate and aiming to achieve a positive real interest rate
- intensifying energy conservation and developing domestic sources of energy
- channelling oil imports, as far as possible, within the framework of the bilateral trade with the Soviet Union.

Of these steps, those best serving the full employment objective are the curbing of indirect labour costs and the raising of the real rate of interest. The system of financing social security in Finland to some extent favours the use of capital at the expense of labour. As a rule, pension funds and other social security schemes are financed by contributions collected in connection with the payment of wages and salaries, which are then lent to investors, often at a negative rate of interest. This has boosted investment to some extent but may also have resulted in too rapid a substitution of capital for labour.

Hindering the maintenance of labour-intensive production is the fact that it is precisely in the area of labour saving that technology is making very rapid advances. Under such circumstances, rectifying the unfavourable developments in relative prices mentioned above can do little to influence the choice of production technology or the composition of factor inputs.

The scope for improving employment by supporting the growth of output and retarding the capital-deepening process is limited. Thus, it would appear that the restoration of better balance in the labour market will, in the coming years, also have to rely on schemes for reducing working time. In the heavy processing industry, where labour requirements are clearly declining, shorter working time has been introduced in some sectors. In manufacturing industry operating on a continuous three-shift basis, the working week has been reduced from 40 to 36 hours. It seems evident that schemes of this kind will spread quickly to those areas of production where the operating time of productive capacity can be kept unchanged even after a reduction in normal working hours.

More emphasis in the future will also be placed on adult education so as to both increase the vocational skills of the labour force and to reduce the supply of labour. For the time being, the implementation of measures of this kind is hampered by a shortage of appropriate plans.

Some scope for reducing the present imbalances in the labour market is also offered by aids to labour mobility. Even in periods of slow growth, labour shortages, either general or occupational, tend to emerge in the Greater Helsinki Area and a few other population centres, while in some economically weak areas the rate of unemployment exceeds 10 per cent. Regional and occupational labour shortages have resulted in wage drift, which in turn has given an impetus to inflation. Due mainly to demographic factors and housing market problems, the promotion of occupational mobility by, inter alia, expanding the vocational training of adults, will play an increasingly important role in securing flexibility in the labour market.

In formulating key economic objectives in recent years, priority has been given to policies which are least injurious to employment. The deficit on the current account has been allowed to continue, monetary policy has not been made too restrictive, and cuts in public sector spending have not been of the same magnitude as in many other industrialized countries. Although from the cyclical policy viewpoint, this policy approach has been successful in sustaining domestic demand as export demand has weakened, the problems of the public sector have mounted quickly, posing the danger of structural disequilibrium.

# THE OUTLOOK FOR THE SUPPLY OF AND DEMAND FOR LABOUR IN FINLAND IN THE 1980s

by Pirkko Aulin-Ahmavaara, Lic. Phil. (Econ.)

Ministry of Labour

The unemployment rate in Finland began to rise rapidly after the middle of the 1970s. From about 2 per cent in 1975, it rose to a peak of about 7½ per cent in 1978. Then, unlike in most other West European countries, unemployment in Finland started to fall in 1979. Although this decline lasted for only about two years, the subsequent growth in unemployment has been rather modest. In 1983, the unemployment rate was about 6 ½ per cent.<sup>1</sup>

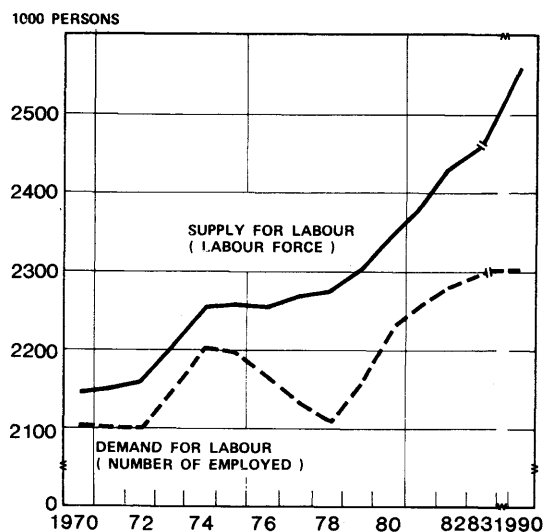
The fall in unemployment was due to an increase in the demand for labour after 1978, which initially was very rapid. However, as a result of vigorous growth in the supply of labour, unemployment began to rise again as the growth in the demand for labour decelerated. According to projections made by a Ministry of Labour working group, the increase in the supply of labour will decelerate during the second half of the 1980s. But even then the increase is expected to be so strong that real GDP growth of slightly less than 3 per cent a year until 1990 will not be sufficient to reduce unemployment from its present level. The growth in the supply of labour is estimated to slow down further in the 1990s.

## THE DEMAND FOR LABOUR

In contrast to most other western industrial countries, the level of employment in Finland

started to fall clearly in the mid-1970s (Chart 1). From its peak in 1974 to its lowest point in 1978, employment fell by about 100 000, or 4½ per cent. The weaker trend of employment in Finland as compared with other countries during this period was attributable to the continued very rapid fall in employment in agriculture and forestry.

**CHART 1. THE SUPPLY OF AND DEMAND FOR LABOUR IN 1970–1983 AND A PROJECTION FOR 1990, 1 000 PERSONS**

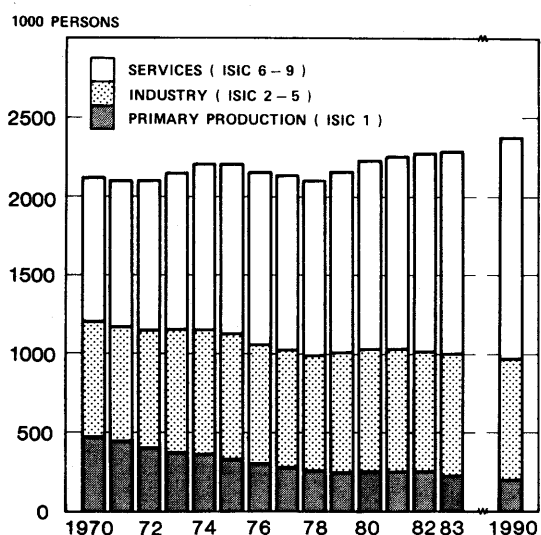


In 1979, there was a strong recovery in employment in Finland, which continued, albeit at a gradually decelerating pace, until 1983. During the five-year period from 1978 to 1983, employment is estimated to have risen by almost 200 000. Such a rapid increase in employment is unprecedented in Finland. This exceptionally large increase in the numbers employed can, however, be ascribed to a marked slowdown in the exodus of labour from agriculture and forestry. Thus, while in 1975–1978 the numbers employed in agriculture and forestry fell on average by about

<sup>1</sup> The present article is based on projections of trends in the supply of and demand for labour up to 1990 made by a Ministry of Labour working group. (Report of the Working Group on Manpower Forecasting, Trends in the Supply of and the Demand for Labour up to 1990, Manpower policy studies No. 41, Ministry of Labour, Planning Division, Helsinki 1983.) At the request of the working group, the time series for 1970–1982 compiled on the basis of labour force surveys were revised by the Central Statistical Office of Finland. The data on the labour force, employment and unemployment presented in this article are based on these revised series. The data for 1983 have also been revised so as to be comparable with the other data.

25 000 a year, since 1978 the total number of persons engaged in this sector has fallen by only about 10 000. This deceleration in the fall can be partly explained by the fairly long duration of high unemployment and a decline in the numbers retiring on disability pensions. Clearly, too, it also reflects the fact that the lower limit on the labour force needed in this sector is gradually being approached. During 1978–1983, employment increased primarily in the service industries, the sharpest growth occurring in the public sector. Employment in the secondary industries increased only a little.

**CHART 2. EMPLOYMENT IN 1970–1983 BY SECTOR AND A PROJECTION FOR 1990, 1 000 PERSONS**



In projecting future employment trends, a key question is, of course, by how much GDP is likely to grow. The prevalent view in Finland is that the average growth of total output over the remaining years of the current decade could, at best, be about 3 per cent per annum. The Ministry of Labour working group carried out two projections for the period 1983–1990, one based on average GDP growth of slightly less than 3 per cent per annum and the other on growth of about 1½ per cent per annum.

In the first alternative it was assumed that the growth rate for the entire OECD region would also be close to 3 per cent per annum. Finland's external competitiveness was assumed to remain unchanged. In addition, it was

assumed that the current account and public sector deficits would be small and the tax burden unchanged. On these assumptions, the faster growth case predicts that the total number of employed will rise by almost 100 000 during the period 1983–1990. This would represent a distinct deceleration in the growth of employment as compared with the last five years. The main factors contributing to this development are a slight acceleration in the decline in employment in agriculture and forestry and an estimated deceleration in the growth of employment in the public sector.

It is estimated that the numbers employed in agriculture and forestry will decline by about 40 000 in 1983–1990. This would imply that productivity growth in agriculture in the 1980s would be clearly smaller than in the 1970s.

According to the projection, employment in industry<sup>2</sup> could grow by about 30 000 in 1983–1990. Growth is expected to be concentrated in the metal and engineering industries, which was the branch experiencing the fastest growth of employment in the 1970s as well. Employment in construction has been declining since the 1970s. With housing construction, in particular, declining in the 1980s, employment in construction is assumed to go on falling slightly.

Even in the service industries, the growth of employment is estimated to be rather small over the remaining years of the 1980s. From 1983 to 1990, the numbers employed in services would increase by only about 110 000, with growth decelerating in both the private and the public sector. Curbing the growth of the public sector would seem to be inevitable, if the basic assumptions of a small public sector deficit and an unchanged tax burden are to be realized. On the other hand, the slowdown in the growth of employment in the private sector will be connected with the deceleration in the growth of total output.

This projection of future employment trends means that the increase in overall productivity,

<sup>2</sup> Industry as used here is defined as ISIC Major Divisions 2–5; i.e. mining and quarrying, manufacturing, electricity, gas and water, and construction.

based on numbers employed, will be only about 2 per cent per annum on average, as against more than 3 per cent annually in the 1970s. Working time is assumed to display the same trend in the 1980s as in the 1960s and 1970s, decreasing on average by almost one per cent per annum. The deceleration in the growth of productivity can be partly explained by the fact that the share of total employment in service industries is constantly increasing. Another major factor is the projected deceleration in the decline in agricultural employment. The growth of productivity in industry is also expected to decelerate as the growth of output slows down.

In the slower growth projection, average annual GDP growth of about 1½ per cent during 1983–1990 would lead to a fall of about 50 000, or more than 2 per cent, in the demand for labour during this period. Compared with the faster growth case, the greatest differences in sectoral employment trends are in industry, particularly the metal and engineering industries, and private services. As for public services, the differences are smaller, because the slower growth case allows for a larger public sector deficit. Adding to the uncertainty associated to the slower growth alternative is the fact that such a long period of slow growth has never been experienced before.

## THE SUPPLY OF LABOUR

With the recovery in the demand for labour in 1978, the increase in the supply of labour, which had been rather small for four years, also accelerated (Chart 1). The supply of labour continued to grow rapidly in 1981 and 1982, when the increase in demand was already decelerating. In 1983, however, the growth of supply also appears to have slowed.

Over the five-year period 1978–1983, the supply of labour is estimated to have grown by almost 200 000 persons, or by some 9 per cent. During the preceding five-year period 1973–1978, the supply of labour grew by nearly 60 000. This change may largely have

been the result of developments in unemployment. From 1973 to 1978, the unemployment rate rose from almost 2½ per cent to about 7½ per cent. By 1983, the unemployment rate had again fallen to about 6½ per cent. When forecasting the supply of labour, estimates were made of the impact of the unemployment rate on male and female labour force participation rates for different age-groups. According to these estimates, the increase in the potential supply of labour was about 120 000 in the period 1973–1978 and about 185 000 in 1978–1983. By the potential supply of labour is meant the supply of labour which would have existed had the unemployment rate been about 2½ per cent.

Table 1 shows the change in the potential supply of labour over five-year periods and the contributions of different factors to these changes. In both the first and second halves of the 1970s the potential supply of labour grew by about 110 000–120 000, or by more than 5 per cent. During the first half of the 1980s, the potential supply is estimated to grow by clearly more than this. Thereafter, the growth is estimated to decline.

**TABLE 1. CONTRIBUTIONS OF DIFFERENT FACTORS TO THE CHANGE IN THE POTENTIAL SUPPLY OF LABOUR IN 1975–1990, 1 000 PERSONS**

Cause of change	75/70	80/85	85/80	90/85	95/90
Change in the population of working age	+ 88	+ 45	+ 77	+ 11	+ 15
Change in the age structure of the population of working age	+ 30	+ 34	+ 20	+ 37	– 3
Change in female participation rates	+ 64	+ 55	+ 56	+ 26	+ 25
Change in male participation rates	– 61	– 10	+ 10	– 8	+ 2
Change in the labour force of 65 and over	– 10	– 6	– 4	– 3	± 0
Total change	+ 111	+ 118	+ 159	+ 63	+ 39

A central factor affecting the growth of the potential supply of labour has, of course, been the increase in the population of working age (defined here as between 15 and 64 years of age). Its importance is accentuated during the periods of net immigration in the first halves of the 1970s and 1980s. During the second half of



the 1980s, however, migratory flows are assumed to be offsetting, and the internally-generated increase in the population of working age no longer contributes significantly to the increase in the supply of labour. Developments in the age structure of the population of working age were also a factor increasing the potential supply of labour in the 1970s and continue to be so in the 1980s.

Another important factor behind the increase in the supply of labour in the 1970s was the rise in female participation rates. It is a major factor during the first half of the 1980s as well. In the first half of the 1970s, the rise in potential female participation rates centred on women between 25 and 44 years of age and during the second half on those in the 40 to 54 years age-group. During the first half of the 1980s, the rise is based on women between 50 and 64 years of age, and is greatest in the top five-year age-group. The rise in female participation rates can be ascribed to several factors, of which perhaps the most important have been the rise in the level of education and a shift in the industrial structure towards the increasing domination of services. Since the mid-1970s the proportion of the working-age population receiving disability pensions has also fallen, and this has contributed to the rise in the labour force participation rates of the oldest age-groups.

It is estimated that the increase in the potential supply of labour caused by the rise in female labour force participation rates will be smaller in the second half of the 1980s. This will be the consequence of both a halt in the decline in the share of recipients of disability pensions and a rise in the labour force participation rates of students following completion of the upper secondary school reform.

Although developments in male labour force participation rates have generally been a factor diminishing the supply of labour, a change in these trends is, however, the main reason why the increase in the supply of labour during the first half of the 1980s is distinctly greater than ten years earlier. During the first half of the

1970s, male participation rates fell mainly because of an increase in the share of recipients of disability pensions in age-groups of 45 years and over. The labour force participation rates of the youngest males also fell sharply. During the first half of the 1980s, the shares of recipients of disability pensions have been declining and the growth in the share of students has been rather small. During the second half of the 1980s, the lengthening in education connected with the upper secondary school reform will mean that the change in male participation rates will again have the effect of slightly reducing the labour supply.

Since under both alternatives the growth in the demand for labour does not suffice to employ the entire potential supply of labour in 1990, it is estimated that labour force participation rates will display some flexibility and that the actual supply will fall short of the potential supply. If the more optimistic demand alternative were to be realized, the supply of labour would grow by 100 000 between 1983 and 1990. Under the slower growth alternative, the increase in the supply of labour would be about 60 000.

## UNEMPLOYMENT

Table 2 shows alternative projections of developments in labour supply and demand and in the rate of unemployment. In the faster growth case, the unemployment rate would still be about 6½ per cent in 1990. Hence, annual GDP growth of slightly less than 3 per cent would not be sufficient to reduce

**TABLE 2. THE SUPPLY OF AND THE DEMAND FOR LABOUR AND UNEMPLOYMENT IN 1970, 1980 AND 1983, AND PROJECTIONS FOR 1990, 1 000 PERSONS**

	1970	1980	1983	1990	
				1	2
Supply (Labour force)	2147	2345	2456	2560	2520
Demand (Number of employed)	2101	2232	2298	2390	2250
Unemployment	46	113	158	170	270
Unemployment rate, per cent	2,1	4,8	6,4	6½	10½

unemployment from its present level before 1990. It seems, however, that it would suffice to prevent an increase in the trend rate of unemployment. By contrast, average annual GDP growth of about 1½ per cent would lead to an unemployment rate of more than 10 per cent by 1990.

With the continual decline in the labour force in the younger age-groups, the number of unemployed young people is also likely to decrease. By contrast, the increase in the labour force in the older age-groups, coupled with poor employment prospects in the secondary industries and continued structural change, may mean that the threat of unemployment will centre on the oldest and the least educated members of the labour force, who have the poorest chances of adapting to the changed conditions on the labour market.

#### THE OUTLOOK FOR THE 1990s

As is indicated in Table 1, the growth of the potential labour supply will be rather small during the first half of the 1990s. The change in the population of working age will increase the supply of labour to a fairly limited extent while the impact of the change in age structure will be roughly neutral. A rise in the labour force participation rates of women in the

over-50 age-group is expected to be the main factor contributing to the slight rise in the potential supply of labour.

No projection was made of employment trends in the second half of the 1990s. However, on the basis of existing demographic projections, it can be concluded that if labour force participation rates were to be the same in the year 2 000 as in 1995, then the supply of labour would grow by about 5 000 between 1995 and 2 000. Changes in the labour force participation rates are unlikely to give rise to any large net increase in the supply of labour during the latter half of the 1990s. The rise in female participation rates will probably become increasingly smaller, because of their present high level. The final outcome will, it would seem, depend on developments in labour force participation rates for pensioners.

The projection on which this article is based does not include estimates of employment trends in the 1990s. A high degree of uncertainty attaches to projections of unemployment in the 1990s for many reasons. It is, however, interesting to note that if the projected GDP growth rate of slightly less than 3 per cent is extended through the 1990s this would seem to lead to unemployment rates in the year 2 000 which are close to those prevailing in the 1960s and 1970s.

# MAJOR LABOUR MARKET PROBLEMS AND INCOME MAINTENANCE OF THE UNEMPLOYED IN FINLAND

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## BACKGROUND

This article seeks to shed light on current and foreseeable labour market problems in Finland. In addition, the newly reformed system of unemployment security is briefly described. To begin with, however, it may be pertinent to sketch the general state and development of the Finnish economy so that the true proportions and significance of these problems can be put into perspective. For the labour market is not characterized by problems alone; the positive aspects of labour market dynamics may, by providing opportunities for raising people's welfare, be even more important.

In comparison with most countries in Western Europe, economic development in Finland may be regarded as rather favourable. This is particularly true of the period since the late 1970s, i.e. after the recession in 1977–78. For example, Finland's real GDP grew by 20 per cent in all between 1979 and 1983, while the corresponding increase elsewhere was generally below 10 per cent. Moreover, unemployment has remained at fairly tolerable levels by international standards.

By the mid-1970s, Finland had undergone a process of far-reaching structural change within the space of a single generation. In 1950, about 46 per cent of the economically active population was engaged in agriculture and forestry, 27 per cent in manufacturing and construction, and 26 per cent in services. In 1980, these shares were 13, 34 and 53 per cent, respectively.

Facilitating the transformation of the Finnish economy has been vigorous internal migration, which accelerated up to 1974, swelling the

populations of urban centres throughout the country, but above all in southern Finland. In addition, there has been heavy emigration, primarily to Sweden; at its height in 1969–70 this exodus even caused a fall in Finland's total population. All in all, post-war net emigration has amounted to around 300 000 persons, equivalent to more than six per cent of Finland's present population (4.8 million).

These structural developments have been less pronounced since the late 1970s. Changes are still taking place, of course, but they require less in terms of, for example, geographical mobility than before. Nevertheless, certain regional and other disparities remain, not least in regard to employment opportunities.

## SUPPLY OF LABOUR

In spite of comparatively vigorous economic growth, unemployment has not fallen appreciably since the recession of 1977–78. The perseverance of sizeable unemployment — which may be regarded as the foremost labour market problem in Finland at present — is largely related to unusually strong growth in the supply of labour.

The labour force — the number of people in employment or seeking work — was fairly stable at around 2.37 million in 1974–1978. As Chart 1 indicates, labour force participation rates declined in many age-groups, most notably among men over 55 and youths under 20 years of age.

As can be seen in Table 1, the supply of labour (the labour force) has grown without interruption since 1978, and, moreover, at a faster rate

**TABLE 1. POPULATION OF WORKING AGE, LABOUR FORCE AND PARTICIPATION RATES, BY SEX, IN 1978-1984**

Year	Population of working age Thousands			Participation rates Per cent		
	Both sexes	Males	Females	Both sexes	Males	Females
1978	3 579	1 733	1 845	66.3	73.3	59.7
1979	3 597	1 744	1 853	66.7	73.4	60.4
1980	3 616	1 755	1 861	67.5	74.1	61.3
1981	3 636	1 767	1 869	68.2	74.3	62.5
1982	3 659	1 781	1 877	69.0	74.5	63.6
1983	3 681	1 794	1 887	69.2	74.2	64.3
1984*	3 702			69.6		

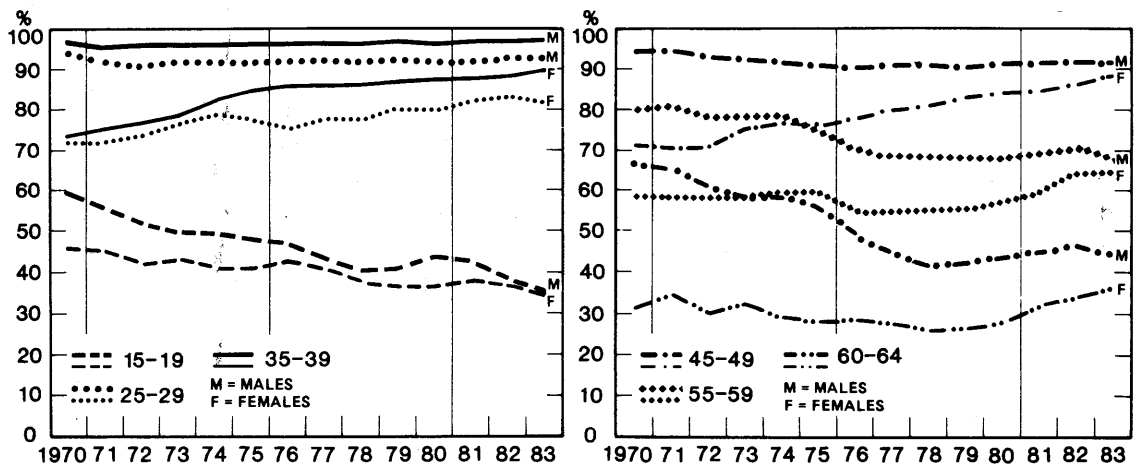
Year	Labour force Thousands			Change from preceding year Thousands		
	Both sexes	Males	Females	Both sexes	Males	Females
1978	2 372	1 271	1 102	1	2	0
1979	2 399	1 280	1 119	27	9	17
1980	2 442	1 301	1 141	43	21	22
1981	2 481	1 313	1 168	39	12	27
1982	2 526	1 327	1 199	45	14	31
1983	2 546	1 332	1 214	20	5	15
1984*	2 577			31		

SOURCE: Labour force survey  
\* Forecast

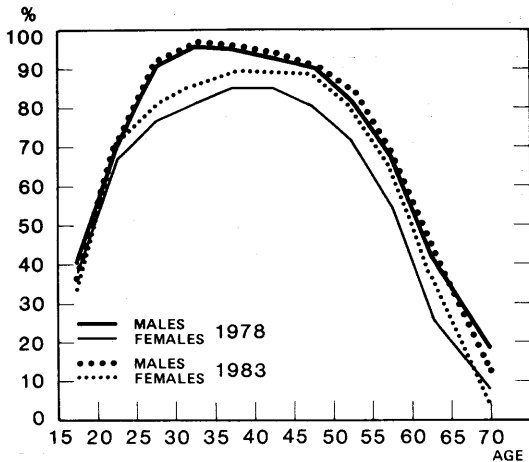
than the population of working age. Thus participation rates were significantly higher in 1983 than in 1978. Chart 2 shows that this rise took place in all age-groups, except the youngest (15 to 19 years) and the oldest (over 65 years). In the case of men, the increases were rather small but for women they were more marked as female participation rates rose to record levels.

The increase in the male labour force has been almost entirely due to population growth and especially changes in the age structure. By contrast, demographic developments have accounted for only one-third of the growth of the female labour force, while two-thirds has reflected the relatively greater increase in participation rates for women.

**CHART 1. LABOUR FORCE PARTICIPATION RATES IN CERTAIN AGE-GROUPS, BY SEX, IN 1970-1983**



**CHART 2. LABOUR FORCE PARTICIPATION RATES, BY SEX AND AGE, IN 1978 AND 1983**



There have been powerful economic inducements for women to enter the workforce. The 1976 tax reform cut disposable incomes in families with a single breadwinner; since then it has been more advantageous for both spouses to earn their own income. Another incentive is the fact that pensions and other social security benefits are earnings-related.

In addition, certain long-term factors, such as rising levels of education, smaller families, urbanization and changing attitudes, may underlie the continuing growth of the labour force.

Table 2 indicates that the number of retired and disabled persons of working age has declined somewhat. Fewer people have been granted disability pensions in recent years than in the 1970s. However, many elderly people with impaired working capacity have become long-term unemployed and thus entitled to unemployment pensions.<sup>1</sup> Recipients of unemployment pension are included in the labour force in labour force surveys (but are not considered as job seekers by the Public Employment Service). In September 1984, there were 42 000 persons on unemployment pension, representing 1.6 per cent of the labour force.

<sup>1</sup> Starting in 1985, the minimum age for receiving unemployment pension will be raised gradually from 55 to 60 years.

A small proportion of the registered unemployed may be more interested in claiming unemployment benefits than seeking work. Following the relaxation of the qualifying conditions for State-financed unemployment assistance in the late 1970s, the number of such spurious job applicants may have increased somewhat.

The growing supply of labour poses a challenge primarily for employment creation policies. The alternative of restricting labour supply does not seem to be attractive because such measures might, for instance, adversely affect the equality of the sexes in the labour market or the international competitiveness of Finnish firms.

## DEMAND FOR LABOUR

The demand for labour, or the employed workforce<sup>2</sup>, has grown even more rapidly than the supply of labour since 1978. However, despite this comparatively strong growth of demand — by as much as 190 000 persons in 1978–1983 — there has not been any marked reduction in unemployment.

As Table 3 reveals, the number of employed men grew briskly during the boom of 1979–80 but subsequently remained fairly stable until 1983. By contrast, the employed female workforce continued growing without interruption, largely because the industries that primarily employ women were not affected by the slow-down in economic growth. The lower part of Table 2 indicates the sectoral shifts that occurred in the employed workforce between 1978 and 1983. Employment in agriculture and forestry fell slightly while it increased somewhat in both manufacturing and construction. About 90 per cent of the total net increase in the employed labour force took place in tertiary industries, particularly in public services. Around one half of the net increase in the employed workforce since 1978 has taken

<sup>2</sup> The small difference (usually no more than 0.5 per cent of the labour force) between the total demand for labour and the employed workforce — unfilled vacancies — is disregarded here.

**TABLE 2. LABOUR FORCE BALANCE SHEET FOR 1978 AND 1983**

Activity status	Sex	Labour force Thousands		Change in 1978-83	
		1978	1983	Thousands	Per cent
Population of working age (15-74 years)	Both sexes	3 579	3 681	102	3
	Males	1 733	1 794	61	4
	Females	1 845	1 887	42	2
Not in labour force	BS	1 207	1 135	- 72	- 6
	M	463	462	- 1	0
	F	744	673	- 71	- 10
- Disabled and retired	BS	681	660	- 21	- 3
	M	305	305	0	0
	F	377	356	- 21	- 6
- Students	BS	319	326	7	2
	M	156	155	- 1	- 1
	F	162	170	8	5
- Domestic work	BS	207	149	- 58	- 28
	M	2	2	0	0
	F	205	147	- 58	- 28
Labour force	BS	2 372	2 546	174	7
	M	1 271	1 332	61	5
	F	1 102	1 214	112	10
Unemployed	BS	172	156	- 16	- 9
	M	106	83	- 23	- 22
	F	66	73	7	10
Employed workforce	BS	2 200	2 390	190	8
	M	1 164	1 249	85	7
	F	1 035	1 141	106	9
- Agriculture and forestry	BS	316	302	- 14	- 4
	M	188	185	- 3	- 2
	F	128	117	- 11	- 9
- Manufacturing	BS	579	606	27	5
	M	359	389	30	8
	F	220	216	- 4	- 2
- Construction	BS	178	183	5	3
	M	160	165	5	3
	F	17	18	1	5
- Trade	BS	313	337	24	8
	M	122	133	11	9
	F	191	204	13	7
- Transport and communication	BS	174	177	3	2
	M	125	128	3	2
	F	49	50	1	2
- Financing, insurance etc.	BS	117	135	18	15
	M	40	54	14	35
	F	77	80	3	4
- Services	BS	517	646	129	25
	M	166	192	26	16
	F	351	453	102	29
- Industry unknown	BS	7	3		
	M	5	1		
	F	2	1		

SOURCE: Labour force survey

place in the public sector, partly by means of temporary jobs created for employment maintenance purposes.

The employed workforce is likely to go on increasing in the service sector in the foreseeable future, whereas in agriculture employ-

ment will continue to slowly diminish. The employment prospects for manufacturing industries are harder to assess. It seems that, thanks to rationalization and technological innovations, even a substantial increase in manufacturing output is possible without significant increases in workforces.

**TABLE 3. EMPLOYED WORKFORCE, UNEMPLOYED PERSONS AND UNEMPLOYMENT RATES, BY SEX, IN 1978—1984**

Year	Employed workforce Thousands			Change from preceding year Thousands		
	Both sexes	Males	Females	Both sexes	Males	Females
1978	2 200	1 164	1 035	- 32	- 18	- 15
1979	2 256	1 197	1 058	56	33	23
1980	2 328	1 240	1 088	72	43	30
1981	2 353	1 244	1 109	25	4	21
1982	2 377	1 248	1 129	24	4	20
1983	2 390	1 249	1 141	13	1	12
1984*	2 425			35		

Year	Unemployed persons Thousands			Unemployment rates Per cent		
	Both sexes	Males	Females	Both sexes	Males	Females
1978	172	106	66	7.3	8.4	6.0
1979	143	82	61	6.0	6.4	5.4
1980	114	61	53	4.7	4.7	4.7
1981	127	69	59	5.1	5.2	5.0
1982	149	79	70	5.9	6.0	5.8
1983	156	83	73	6.1	6.2	6.0
1984*	152			5.9		

SOURCE: Labour force survey

\* Forecast

## UNEMPLOYMENT

Unemployment persists as the main labour market problem in spite of the growing demand for labour. Even at its lowest level in recent years — 4.7 per cent in 1980 — the unemployment rate was twice as high as the average in 1971—1975.

Table 3 shows that, apart from the years 1980—81, the overall level of unemployment has varied only a little in recent years. A notable feature is the virtual disappearance of the unemployment rate differential between the sexes. The recent rise in the female unemployment rate may be due to the strong flow of women to the labour market.

Various investigations suggest that the risk of becoming unemployed has not changed significantly since the early 1970s. For example, in 1983 unemployment averaged 156 000, but all in all some 390 000 people (15 per cent of the labour force) were unemployed at some time during that year. The essential difference seems to lie in the duration of joblessness: whereas the average spell of unemployment

was 5 weeks in the early 1970s it was 20 weeks in 1983. Long-term unemployment has become a major concern of employment policy and it is estimated that about 10 per cent of those becoming unemployed will be out of work for more than one year.

Unemployment displays marked variations by age. The unemployment rate is highest in the youngest group (15 to 19 years), but if based on the combined total of the labour force and students it does not differ from the overall rate of joblessness. Moreover, the duration of unemployment is short in this age-group, 12 weeks on average in 1983 compared with 38 weeks among the unemployed over 50 years of age. Long-term unemployment is thus mainly the problem of the elderly. In the age-group 30 to 50 years the unemployment rate is considerably below the average, and long-term unemployment is rather rare.

Unemployment affects the labour force very unevenly in other respects as well. Most at risk are those engaged in forestry (an unemployment rate of 13 per cent in 1983), construction (11 per cent), and hotels and catering (8 per

cent). On the other hand, those employed in agriculture and various services have low rates of unemployment (2–3 per cent in 1983). Regional variations are also wide: in the Helsinki area the unemployment rate is below 2 per cent, while in the northern and eastern parts of the country it is often more than 10 per cent, and in many rural communes even above 20 per cent. These disparities are usually most acute during business upswings.

It has been observed that unemployment will not decline unless economic growth exceeds three per cent a year on average. Hence, unless there is a change in the relationship between economic growth and unemployment, no substantial reduction in unemployment is to be expected in the coming years given the relatively slow rate of economic growth envisaged during the decade ahead.

#### BOTTLENECKS AND RIGIDITIES

A prominent feature of the regional employment pattern is the persistent shortage of manpower in the Greater Helsinki area. Internal migration does not offer a feasible solution to this problem because of a serious shortage of housing in the region. The main bottlenecks are to be found predominantly in services and construction. In some of these branches there are shortages in other parts of the country, too. The only effective remedy would seem to be to expand training for the occupations in short supply, but naturally that will take time.

It is often claimed that labour market imbalances have become exacerbated in recent years, as evidenced in the frequent coincidence of unemployment and shortages of suitable skilled labour. Even if these mismatches could be alleviated by internal migration many obstacles would have to be overcome: in addition to the housing shortage, there is the difficulty of finding suitable work for both spouses, and perhaps day care facilities for the children, in the same locality at the same time. Another factor tending to reinforce rigidity is that the young and most

adaptable age-groups are now smaller than they were some ten years ago. Moreover, both employers and job seekers appear to have adopted a more selective attitude: the former require higher qualifications and the latter have greater expectations concerning the quality of work etc. One outcome of these developments seems to be the declining role of the Public Employment Service in job placement. Whereas it was responsible for about 40 per cent of the job vacancies filled in the early 1970s, its share is around a quarter at present.

#### RISK GROUPS

Against a background of growing labour supply, rationalization and technological progress, there has been a trend rise in the numbers who are hard to employ. That part of the labour force falling into this category is characterized by advanced age, lack of occupational skills and various handicaps, often in combination. Under conditions of ample labour supply, their competitive position in the labour market is weak, so that they often become long-term unemployed and ultimately withdraw from the labour market. For example, in 1983 there were 37 000 registered job seekers who had been out of work for more than a year. Only 16 per cent of them could be placed in employment or were able to find work themselves in the open market. Public employment measures were of little help to them, only 8 per cent being placed in such activities.

Another vulnerable group — unemployed youths — has fared better, largely because effective measures have been taken to combat this form of unemployment. Thus only 4 per cent of the unemployed in the under-25 group were without work for more than a year in 1983, whereas 13 per cent of total unemployed were long-term unemployed.

#### INCOME MAINTENANCE OF THE UNEMPLOYED

A statutory unemployment insurance system, based on voluntary membership, has existed in Finland since 1931. Since 1959 it has been



complemented by an unemployment assistance scheme funded wholly by the State. This dual unemployment security system was reformed in connection with the incomes policy settlement in March 1984 to take effect from the beginning of 1985.

The new unemployment security system provides two forms of benefit: basic benefit, which is a flat-rate sum per working day (as a rule, FIM 70 at present) and earnings-related benefit, which is payable only to unemployed members of the unemployment insurance funds. Earnings-related benefit is higher than basic unemployment benefit, and is calculated as 45 per cent of the difference between the daily wage and basic unemployment benefit. If, however, the claimant's monthly wage exceeds a certain ceiling (90 times the daily basic benefit rate), only 20 per cent of the income in excess of that amount is compensated. The rates of both forms of benefit are somewhat higher if the recipient has dependent children. Earnings of the spouse, like the beneficiary's own income, may reduce basic benefit according to a specified schedule.

Earnings-related benefit is payable for a maximum of 500 days during four consecutive calendar years to members of the unemployment insurance funds. When this benefit has been paid for 100 days, the amount is reduced by 20 per cent. Basic unemployment benefit is paid regardless of the duration of unemployment, and it is also payable to the insured unemployed who are no longer entitled to earnings-related benefit. Basic unemployment benefit is wholly financed by the State, while 70 per cent of the outlays for earnings-related benefit are covered by the employers, 23 per cent by the State and 7 per cent by the insured themselves. In contrast to the previous tax-free system, both forms of benefit are treated as taxable income.

As for entitlement to unemployment benefits, the new system stipulates that the unemployed applicant must be between 17 and 64 years of age, reside in Finland, seek full-time work through the Public Employment Service, be

capable of work and available for employment, and that he cannot be placed in a job or retraining. The requirement "available for employment" has replaced the previous condition "willing to work", because it is felt that the former can be tested more objectively. In assessing availability, other factors apart from willingness to work may be taken into account, e.g. accessibility of the workplace from the claimant's home. Moreover, under the new system an unemployed person may be required to move to another locality if a job of certain permanency providing full-time employment and a reasonable wage is available there. However, the migrant must be able to find a decent dwelling for himself and his family in the new locality. The unemployed are not obliged to take up employment abroad, and they may refuse to move within the country, too, if there are sound personal reasons for not doing so. Persons who are partially laid-off or otherwise on short-time are also entitled to unemployment benefits at reduced rates subject to certain conditions.

The previous unemployment benefits system was administered by two Government agencies: the unemployment insurance scheme by the Ministry for Social Affairs and Health, and the assistance scheme by the Ministry of Labour. The reform brings the new system under a single agency, the Ministry for Social Affairs and Health. Day-to-day operations concerning the application of the system and payments are handled partly by the unemployment insurance funds and partly by the Social Insurance Institution and its local offices. The Public Employment Service also takes part in the process by issuing certificates concerning the availability for employment of claimants.

## EMPLOYMENT AND MANPOWER POLICY

The Ministry of Labour and its district and local offices are the main organizations responsible for dealing with the labour market problems discussed above. A major preoccupation of the Manpower Administration has, for many years, been to combat and alleviate unemployment.

However, this is not supposed to be the principal function of the Manpower Administration; rather, it is intended to serve the labour market as a whole by catering equally to the needs of both employers seeking workers and job applicants, whether unemployed or not.

Despite a gradual strengthening in its personnel, the Manpower Administration still lacks adequate staff resources to provide all the manpower services expected of it. Particularly when business is brisk, there is much to be done in matching vacancies and jobseekers, and there are always clients of all ages in need of vocational guidance or retraining. Performing all these key functions is understandably hampered as long as there are many

unemployed persons in acute need of assistance.

Providing enough jobs to eradicate unemployment cannot be the task of the Manpower Administration alone; the resources allotted to it suffice, even at best, to take care of 4–5 per cent of the labour force. The attainment and maintenance of full employment must be a major goal of general economic policy. To that end, all the Government agencies should take employment considerations into account when planning and carrying out their various activities. This common responsibility is one of the main points stressed in the long-term employment and manpower policy programme currently under preparation in the Ministry of Labour.

# EXPERIENCES OF SELECTIVE EMPLOYMENT MEASURES IN FINLAND

by Niilo Sääski, Research Officer

Ministry of Labour

## BACKGROUND

The past ten years have seen a substantial rise in unemployment in most of the industrialized market economies. In the Nordic countries, unemployment rates have exceeded the OECD average in Denmark and have been slightly below it in Finland, with the exception of the years 1977–1979. In Norway and Sweden, by contrast, unemployment rates have remained low throughout the period (Table 1).

**TABLE 1. ANNUAL UNEMPLOYMENT RATE IN THE NORDIC COUNTRIES AND THE TOTAL OECD AREA IN 1972–1983.**

Year	Denmark %	Finland %	Norway %	Sweden %	OECD %
1972	1.7	2.7	1.7	2.7	3.8
1973	1.1	2.4	1.5	2.5	3.5
1974	2.5	1.8	1.5	2.0	3.9
1975	6.0	2.6	2.3	1.6	5.4
1976	6.1	3.9	1.8	1.6	5.6
1977	7.7	5.9	1.5	1.8	5.5
1978	7.4	7.3	1.8	2.2	5.4
1979	6.0	6.0	2.0	2.1	5.4
1980	6.9	4.7	1.7	2.0	6.1
1981	9.2	5.1	2.0	2.5	7.0
1982	9.9	5.9	2.5	3.1	8.4
1983	10.6	6.1	3.3	3.5	8.9

Sources: OECD, Economic Outlook, Historical Statistics 1960–1981

OECD, Economic Outlook 33, July 1984

Central Statistical Office of Finland, Labour Force Statistics

Full employment has been set as an objective of manpower policy in all the Nordic countries, although there are marked differences in the priority attached to reaching this goal. In Denmark, the bulk of public spending in manpower policy goes towards financing the unemployment insurance system, with only a small part being used for employment measures. Indeed, the high rate of open unemployment in Denmark can be partly explained by the high level of unemployment benefits in that

country. Norway experienced stable economic growth throughout the 1970s, the maintenance of which was made possible by oil revenue. Norway's unemployment rate has in fact been so low that it has not constituted a problem.

In Sweden, a very ambitious manpower policy has been pursued. The unemployment rate has been kept low by expanding the public sector and by providing training schemes and public relief work for the unemployed. Only a small proportion of the funds allocated to manpower policy has had to be used for unemployment insurance.

In Finland, unemployment exceeded the OECD average in the late 1970s. The main emphasis in economic policies has been on the promotion of the structural adjustment of the economy, especially of the open sector. Special employment measures, whether in the form of direct employment support to the private sector or job creation in the public sector, have been implemented on only a limited scale.

## SELECTIVE EMPLOYMENT SUBSIDIES

Rising youth unemployment, growing regional disparities in employment and the prevalence of long-term unemployment have provided the justification for the introduction of selective employment measures. After a decade of slow economic growth and high unemployment, there has been increasing interest in analyzing the effectiveness of employment measures.

The rapid increase in youth unemployment after the mid-1970s gave rise to concern and the concept of "youth guarantee", by which is meant that the young should be guaranteed

real opportunities of obtaining training places or jobs. The youth guarantee also seems to have created some misconceptions about future developments in unemployment.

In some countries, selective employment subsidies are sometimes viewed as alternatives and complements to macroeconomic policy measures. Initially, it was thought that they did not have any major drawbacks and hence they became widespread during the last decade. In the Nordic countries, public works, employment subsidies and training have been used to check cyclical unemployment. Various grants and loans have been extended to firms and local authorities for increasing and maintaining employment. Public works and employment subsidies have also been used to mitigate unemployment among those who are particularly hard to employ: the young, the aged, those living in the development regions, the partly disabled, etc.

Recently, there has been intense discussion in Finland on various measures for overcoming unemployment. The granting of employment subsidies to firms has been felt to offer one solution to the problem. It has even been claimed that employment subsidies do not cost the central government anything, since the funds allocated for this purpose subsequently flow back in the form of increased tax revenue and savings in unemployment benefits.

Does the use of employment subsidies involve problems? The assessment of the effects of employment measures has normally been neglected, so that very little reliable information on them is available. The amounts of subsidies paid are rather poor indicators of the employment effects achieved. Of the Nordic countries, only Sweden has attempted to evaluate the measures systematically. Greater attention will perhaps be paid to this question in the future, particularly if economic growth continues to be slow and the room for manoeuvre in central government finances becomes increasingly restricted. Some progress nevertheless seems to have been made in this respect. Thus, it is planned to assess

the effects of the employment subsidy recently introduced in Denmark. Similarly, in Finland evaluations are to be made of a subsidy introduced in late 1983 to help the long-term unemployed.

Employment subsidies are paid to firms so as to lower their labour costs. They can be used either to preserve employment or to create extra jobs. Subsidies sustaining employment are generally paid to an industry or firm facing a crisis because of unprofitability in order to deter employers from dismissing or laying off labour. In most cases, a firm receiving a subsidy is obliged to continue producing on the same scale as before or to arrange training to raise the productivity of its workforce. A subsidy is called employment-creating when the condition for receiving it is that the firm increases its labour force in net terms.

The subsidy can be paid either as a flat-rate sum or as a percentage of the wage. A flat-rate subsidy is thought to favour low-wage groups since it offsets a relatively larger share of wage costs. Employment subsidies can be either temporary or permanent. The former have been used mainly as counter-cyclical policy instruments and the latter for the employment of the disabled. Employment subsidies are usually granted selectively; for example, they may be paid only for the hiring of unemployed persons whose prospects of employment are poor. Since the subsidy offsets part of the employee's wage costs, it moves those hard to place to a better position in the employment queue, albeit at the expense of other groups of jobseekers. Subsidies may also be used for creating new jobs which would not be generated otherwise. Thus, a subsidy can be used to encourage an employer to hire an additional worker for employment in normal production, for sweeping floors, painting factory walls, etc.

## THE SCALE OF EMPLOYMENT SUBSIDIES IN FINLAND

In the 1960s, attempts were made to use state and municipal works in the form of investments to even out seasonal and cyclical vari-

ations in the demand for labour in other sectors and in regional differences in the unemployment rate. However, the relative importance of state and municipal employment appropriations as an employment policy instrument has declined. Whereas the number employed under such schemes in 1966 totalled 99 000, it had fallen to only 67 000 in 1983. The decline has been sharpest in the development regions.

Table 2 shows the employment subsidies used in Finland in 1978–1983. A cyclical employment policy subsidy, effective only in 1978, was granted for the preservation of employment to firms encountering difficulties because of recession. The subsidy amounted to FIM 51 a day per employee and was equivalent to the

daily allowance paid by the unemployment insurance fund. It is estimated that the employment-sustaining impact of this subsidy was minimal.

The purpose of the extra employment subsidies was to encourage firms to bring forward their hirings and thereby to hasten the business upswing. Extra employment subsidies were paid to firms in the four months between March 1 and June 30, 1979. If the recruitment took place in March–April, the subsidy was FIM 6 000 per person paid as a lump sum, while FIM 3 000 per person was paid for those recruited in May–June. In addition, it was required that firms increased their labour force in net terms and that hirings took place through the Employment Service. All in all, sub-

**TABLE 2. EMPLOYMENT SUBSIDIES IN FINLAND IN 1978–1983**

Numbers employed

	1978	1979	1980	1981	1982	1983
Cyclical employment policy subsidy	300	—	—	—	—	—
Extra employment subsidy to firms	—	15 300	—	—	—	—
Employment subsidy to those with university or college education	—	700	600	200	200	400
Youth employment subsidy	7 000	16 900	12 900	8 300	3 800	3 500
Municipal employment subsidy	10 800	14 500	13 600	15 000	16 900	17 800
<b>Total</b>	<b>18 100</b>	<b>47 400</b>	<b>27 100</b>	<b>23 500</b>	<b>20 900</b>	<b>21 700</b>
Total as per cent of total employment	0.8	2.1	1.2	1.0	0.9	0.9

Subsidies granted (million FIM)

	1978	1979	1980	1981	1982	1983
Cyclical employment policy subsidy	4.4	—	—	—	—	—
Extra employment subsidy to firms	—	28.1	24.7	—	—	—
Employment subsidy to those with university or college education	—	7.2	6.9	2.3	1.9	7.0
Youth employment subsidy	22.0	42.7	45.7	32.4	31.1	53.3
Municipal employment subsidy	89.2	135.8	218.7	320.7	361.1	480.0
<b>Total</b>	<b>115.6</b>	<b>213.8</b>	<b>296.0</b>	<b>355.4</b>	<b>394.1</b>	<b>540.3</b>
Total as per cent of GDP	0.08	0.12	0.15	0.16	0.16	0.20

sidies were paid for the recruitment of 15 300 persons. Part of the subsidy was paid retroactively in 1980, and at the same time it was checked that those persons recruited by means of the subsidy were still employed by the firm.

In order to alleviate unemployment among people with university or college education, a separate employment subsidy was introduced in 1979.

Under this scheme, a subsidy of FIM 2 500 is paid for a maximum of one year to firms which hire unemployed persons with such education. Jobs qualifying for this subsidy include those in such areas as product development, export promotion, increasing the use of domestic energy, and promoting energy conservation.

In order to mitigate youth unemployment, two employment subsidies have been introduced. The youth employment subsidies were initially paid both for apprenticeships and job introduction schemes. At the end of 1981, however, the payment of training subsidies was terminated and at present only apprenticeships are subsidized. The most extensive subsidy is the municipal employment subsidy, which is fully financed out of public funds and thus resembles public works. One of the purposes of municipal employment subsidies is to help young people to acquire work experience and thereby to improve their possibilities of finding work in the private sector.

A subsidy does not pay for itself, and hence part of it has to be covered out of public funds. Extensive use of subsidies gives rise to budget deficits, and in so doing partly transforms the unemployment problem into another macroeconomic problem. If spending on a subsidy is to be recovered as higher tax revenues and lower unemployment benefits, it is necessary that the subsidy is not very large, that no significant displacement effects take place and that it is not paid to firms without inducing the required effect.

Subsidies may also contribute to economic growth through their positive multiplier effects. In addition, growth is promoted by providing

jobs for unemployed persons, particularly those who would not find work otherwise, and by helping them to acquire work experience and to get a start in their working careers. Nevertheless, it should be borne in mind that when a subsidy is used to favour a certain group, it may at the same time discriminate against workers with a higher level of productivity. Employment subsidies also facilitate the creation of unprofitable jobs which would not have been generated without support.

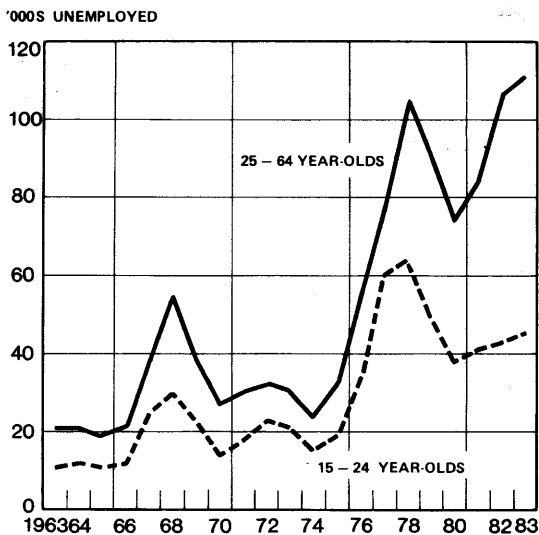
In Finland, employment subsidies have been paid to only a limited extent as compared with Sweden, for example. The cautious attitude of the labour market organizations towards subsidies to firms has perhaps been a factor restraining their use. Employee organizations do not as a rule approve of subsidies paid to firms, while the negative attitude of employer organizations may reflect the fact that subsidies are not neutral since they are thought to distort existing competitive relationships between firms.

## THE YOUTH GUARANTEE

The rapid increase in youth unemployment in many countries in the late 1970s gave rise to concern. In Finland, for instance, political parties were unanimous in agreeing that something should be done to mitigate youth unemployment. It was felt that youth unemployment was not merely a transitory problem but one which was likely to persist in the future, because unemployed youths were not fully assimilated into working life and hence into society.

Chart 1 shows that changes in youth unemployment were fairly closely related to movements in unemployment in the 25–64 years age-group in 1963–1977, but that subsequently a change took place. Studies suggest that the municipal employment subsidy and the youth employment subsidy exercised an important moderating influence on youth unemployment in 1978–1983 in relation to developments in unemployment in other age-

**CHART 1. UNEMPLOYMENT IN FINLAND IN 1963–1983, BY AGE-GROUP**

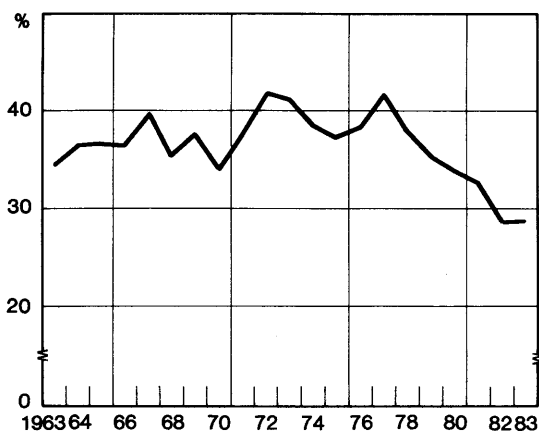


SOURCE: Labour Force Statistics  
Central Statistical Office of Finland

groups. The share of youths in total unemployment has fallen by 15 percentage points since 1977 (Chart 2).

The last decade saw the creation of the terms "youth guarantee" and "social guarantee", a reflection of the high priority attached to the overcoming of youth unemployment. In a joint Nordic study published in 1981, the concept of youth guarantee in its widest sense is understood to mean that all young people are guaranteed real opportunities of receiving education or a job which reasonably corre-

**CHART 2. SHARE OF YOUTHS IN TOTAL UNEMPLOYED IN 1963–1983**



sponds to their aspirations and qualifications and the objectives of society. In principle, the concept of youth guarantee covers all young people, although in practice it has been confined to the unemployed below 25 years of age. The youth guarantee embraces all the measures by which society endeavours to guide unemployed youths into activities improving their chances of acquiring a permanent job.

The OECD has assigned the Nordic countries the task of experimenting with the practical application of the youth guarantee. The experiments with the youth guarantee in Finland and the other Nordic countries have not so much involved the development of new measures as the more intensive use of existing measures and, in particular, directing them at young people. In Finland, the youth guarantee was started in 1981 in 29 localities in various parts of the country.

#### EXPERIENCES OF THE YOUTH GUARANTEE

The transition from full-time education to working life constitutes a difficult phase in the life of a young person. Many are forced to experience an initial period of unemployment of some duration and many also recurrent spells of unemployment before they succeed in obtaining a permanent job. Those whose competitiveness in the labour market is the poorest join the ranks of the long-term unemployed. The target group of the youth guarantee includes a greater-than-average number of dropouts, persons with little schooling, those living in remote districts of the country, persons with housing problems, women with a child, etc. One of the fundamental ideas underlying the youth guarantee is the enhancing of the competitive potential of the young, particularly through training.

Table 3 shows that in the localities where the experiment was in operation in 1982 about 18 000 young people were employed independently or through the Employment Service and about 4 000 received training places.

**TABLE 3. NUMBERS OF YOUNG PEOPLE FOUND JOBS OR TRAINING PLACES IN THE LOCALITIES WHERE THE YOUTH GUARANTEE WAS IN OPERATION IN FINLAND IN 1982**

	1982
Open labour market	11 900
Central government jobs	600
Municipal jobs for the young	1 500
Municipal employment subsidy	4 100
<hr/>	
Total employed	18 100
Work preparation courses	600
Vocational training courses	1 500
Job introduction schemes	1 400
Apprenticeships	400
<hr/>	
Total number of training places	3 900

The main impact of the youth guarantee experiment has been to shorten spells of unemployment somewhat. The scheme seems to have attracted young people from outside the labour force, thus augmenting the total number of unemployed (Table 4). Studies indicate that the supply of labour in the younger age-groups grew more than expected in the districts where the scheme was in operation.

The reliability of these results should be treated with caution. Other factors may have affected unemployment in the localities selected for the experiment.

To what extent has the youth guarantee helped young people to find permanent jobs?

Follow-up data are available on those participating in the job introduction scheme and those employed by the municipal employment subsidy. In the former group, approximately every other participant has subsequently obtained a permanent job, many have started training, and between 10 and 20 per cent have remained unemployed. Some of those employed by means of the municipal employment subsidy have subsequently obtained a job but a distinctly greater proportion than in other groups has remained unemployed. The experiences obtained so far in Finland indicate that the above measures have improved the position of the young in the labour market to some extent.

All in all, the youth guarantee seems to have had little impact on the youth unemployment rate. This may perhaps be because the type and amount of measures do not correspond to needs. Moreover, the participants in the scheme are young people who are unemployed for many different reasons, including, for example, some who may have little motivation to undertake further studies.

In the coming years, the number of young people entering the Finnish labour market will fall as age cohorts diminish in size and an increasingly large proportion remain in full-time

**TABLE 4. UNEMPLOYMENT IN THE LOCALITIES EXPERIMENTING WITH THE YOUTH GUARANTEE AND IN THE REST OF FINLAND IN 1981 AND 1982**

	Localities where the experiment was in operation			Rest of Finland		
	1981	1982	Change per cent	1981	1982	Change per cent
Young unemployed (15–24 years):						
– Unemployed <sup>1</sup>	20 100	22 000	9.4	130 200	137 900	6.0
– Duration of unemployment, weeks	14.4	13.8	–4.2	11.9	13.1	10.1
All unemployed (15–64 years):						
– Unemployed <sup>1</sup>	45 800	50 300	9.8	297 500	321 500	8.1
– Duration of unemployment, weeks	20.6	20.4	1.0	17.6	18.8	6.8

<sup>1</sup> Unemployed job-seekers who have been unemployed at least once during the year in question. The figures mainly indicate the flow of those becoming unemployed.



education and training. The level of education of young people will also be better than at present, if training places are filled and training matches the needs of the labour market. This will offer an increasingly better basis for a decline in youth unemployment. New measures are also being developed. In 1984, the youth guarantee will be made permanent and extended to cover the entire country; at the same time, the youth employment subsidy will be incorporated in the youth guarantee.

## SUMMARY

The purpose of selective employment subsidies is to reduce labour costs and thus encourage firms to increase their use of labour. These measures can be targetted flexibly on persons who would not perhaps otherwise find employment, at the same time helping them to acquire work experience and to make a start in working life. Employment subsidies help to create extra jobs and to alleviate unemployment.

Employment subsidies, which were initially regarded as highly promising, also have certain drawbacks. Subsidies may discriminate against competing production to a significant extent, and they may be paid to firms without inducing the desired employment effects. The net impact of subsidies may be rather modest. However, employment subsidies should not be discarded, since they have a useful role to play in manpower policy. Their effects should be analyzed so that they can be designed to produce the optimum effects with regard to manpower policy, the economy and central government finances.

In Finland, employment subsidies payable to firms have been used to a relatively small extent. Employee and employer organizations have taken a cautious attitude towards them. In the future, too, the scope for their use may perhaps be rather limited. The expansion of employment in the public sector will continue to be the major strategy, provided that the resources of the public sector allow it.

# LOCAL INITIATIVES FOR EMPLOYMENT CREATION

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## INTRODUCTION

Adverse developments in employment and the inadequacy of conventional fiscal measures for coping with cyclical slack and structural adjustment by increasing demand, lend added importance to boosting local initiative and entrepreneurship. Local economies may turn out to be an untapped resource in the search for new economic activities and jobs.

Recognition of the importance of local initiatives is reflected in the industrial countries at many levels. The best proof is provided by those individuals who have succeeded in creating meaningful and viable employment for themselves and others. At a local level, towns, municipalities and regions draw up development plans and devise strategies to attract new entrepreneurs. District offices of the central authorities charged with employment issues pay heed to local conditions and projects. Central and local budgets make provision for support to initiative-promoting structures.

International organizations have also taken an interest; for example, in 1982 the OECD adopted the Co-operative Action Programme on Local Initiatives for Employment Creation (ILE), aimed at providing extensive information on local projects and an evaluation and exchange of views on their methods and results. (The Finnish country report "Initiatives for Employment Creation in Finland" was published by the OECD in 1984). The Commission of the European Communities adopted a similar programme but with a different approach, accumulating information, experience and evaluation through a series of local consultative meetings. Local initiatives and the role of public authorities is a subject of study in the programme of work of the Nordic Council of Ministers.

## CHARACTERISTICS

Local initiatives, broadly defined, cover a vast array of different projects and activities with one or more of the following characteristics in common: they originate within the local community and are run and supported by locally active people and organizations; they are geared to local demand or local resources or both; the initiative may come from individuals, community groups, local business or local authorities; contributions may consist of money, labour, know-how or material help; forms of co-operation, organization and participation may vary, with some tendency to take on a 'mixed', that is to say a public/private, composition with many local interests included. Finally, there may be both commercial and social motives, and the unemployed may be a target group. Local character may be enhanced by a commitment to plough back any profits for community benefit.

A part of the new enterprises take the form of agencies or frameworks to encourage, promote and support other enterprises: innovation and market research centres, consulting agencies etc. The majority work within the existing market economy, but some of them prefer to identify themselves with 'alternative lifestyles' implying self-management, participation and environmental conservation.

The new entrepreneurs may not fully conform to the traditional image of an entrepreneur: one who is determined on his course, values independence highly, has a good feel for the market. The ranks of candidates are now swelled by people whom the uncertainty of jobs has led to seriously consider starting up their own businesses. Help, advice and training are needed not only in the form of a preliminary process of 'animation' but also of a

network of intermediary and supportive structures (legal problems, administrative procedures, management and accounting, contacts with banks, market studies etc.) without delay.

## CHANGES IN THE FINNISH ECONOMY

The Finnish experiences relate to the deep-going structural changes the economy has undergone. With economic growth above the OECD average, the postwar shift from agrarian to industrial and service occupations was the fastest in Europe. Between 1960 and 1982, the share of the labour force employed in agriculture and forestry fell from 36 to 11 per cent, while the ratio of one-to-two between urban and rural population was reversed. This change brought forth a young and dynamic labour force without which industrial expansion would not have been possible. Creation of new structures and equipment was given clear priority over preserving the old, and was an important factor helping to overcome resistance to change.

Notwithstanding this process of rapid and far-reaching change, the share of those engaged in primary industries and living in rural areas remains substantial, so that the links with manual work, rural traditions and the countryside are still very strong. Moreover, a certain social cohesion, 'community spirit', still exists in rural areas. This is an asset to be invoked in attempts to revive, preserve or enhance the community climate with a view to developing the local economy.

There are different types of problem regions in need of an injection of new local entrepreneurship. There are the urban areas and depressed regions with mature capital-intensive industries — once the origin of Finland's industrial expansion — such as the Kymenlaakso region with its pulp and paper industry and sawmills. With the growth phase on the ebb and industry under heavy pressure to rationalize, unemployment has become a serious problem. Since, moreover, the processing industry has

had little need for subcontracting, a network and tradition of small companies is lacking.

In the countryside, some isolated areas are struggling against depopulation and decay of services. Rapid change has made the sparsest inhabited areas even more deserted. The previous seasonal rhythm of farm work and forestry, which used to give extra income to small farmers, has been broken. Over a third of Finland's rural schools have closed since 1960. Village shops have been disappearing at a yearly rate of 5 per cent since 1970.

Job preservation in these circumstances assumes a special meaning: to enable a person to preserve his main occupation or his premises by increasing his secondary occupations and enhancing his multiple skills so as to permit diversification. New occupations can include fur farming, fish-breeding, non-conventional crops, handicrafts and wood carving, repairs and machine tools, tourism and other services (local cobbler, shopkeeper etc.). If nonspecialization with multiple skills gives him the opportunity to remain on his own premises, and ultimately to find new economic orientations, it is preferable to a specialization which, though profitable, could, in rapidly changing economic conditions, suddenly leave him uncompetitive.

Both firms and people are far less mobile than they were in the 1960s. Communities can no longer expect to entice enterprises away from other localities. The accent must be on arousing initiative among each neighbourhood's own inhabitants, including returning immigrants.

As a long-term strategy towards sustained solutions to these problems, entrepreneurship should be recognized as an important national resource. The instilment of these values should start early, at school and in colleges. New ideas, latent demand, and new production possibilities should be explored and encouraged, and new attitudes towards co-operation be developed; technical horizons should be widened by appropriate projects and natural

endowments better exploited; appropriate training should be made available.

## LOCAL DEVELOPMENT PLANS

In face of these developments, most local authorities have, quite recently, adopted new active strategies to promote entrepreneurship. The network of some 300 local authority trade and industry officials is an important tool in this work. It grew up in the 1960s and acts as a major link between companies and local authority administrations.

One community in five has adopted local development plans or projects. Some of them place the accent on comprehensive, balanced development between agriculture, industry and services in the community. Others aim at making the implementation of local economic programmes more effective. Rural communities search for methods to increase the return from agriculture and to find profitable subsidiary occupations.

One pattern is to let ideas be generated by local inhabitants. Universities, research institutes and other organizations provide special studies and advisory services.

The objective at Padasjoki, traditionally strong in agriculture but also with industrial development potential because of its good location, is to create extra earning opportunities at places where people live, rather than them being forced to move to semi-urban growth centres. The Padasjoki Project was launched in 1980 and has produced a large number of new firms and small scale projects in such new livelihoods as fishfarming, specialized cultivation, mushroom and berry picking and processing, and fur farming.

Appropriate training is an important element in making the new fields of activity viable. The project has taught people to appreciate the importance of viable farming and forestry. In addition, industry has been attracted to the region.

The Suomussalmi Ecological Experiment aims at adapting human activity to the natural conditions of the area, with a view to producing regenerative natural resources and preserving the viability of its villages. Interest in farming, fishing and forestry has been revived, and an awareness has been born that each person's input and commitment is important for the community to prosper.

Other projects include the search for "dormant possibilities" through joint discussions involving all interested parties in Sumiainen and Konnevesi and a self-employment scheme in the community of Juuka, which has seen the establishment of some 50 new small firms since 1978. A great number of activities have been generated around tourist attractions. A farming experiment was launched in the Turku Archipelago to acquire knowledge on the strengths and weaknesses of new forms of horticulture.

Various solutions have been tried in old industrial areas experiencing difficulties. Imatra, finding itself with an abundance of industrial labour and training facilities, guarantees to prospective entrepreneurs that their employees will receive whatever training they need. The mining town of Outokumpu, with its copper veins close to exhaustion, is converting its know-how into an independent resource. In many towns, efforts are being made to establish small firms to make use of redundant equipment and buildings, skilled labour and market good-will before these assets disappear. In the industrial town of Varkaus, an inventory was made of all disused industrial plant and equipment on the production side so as to enlarge the assortment available to entrepreneurs.

## OTHER MEASURES

Making technology available to small entrepreneurs will also boost new activities. In 1981, the province of Mikkeli adopted a High Technology project. Experts in various technologies study individually the production processes of

enterprises to identify areas where higher technology could be fruitfully applied in product and process development.

Universities run entrepreneur courses financed out of employment funds. The participants on the courses are managers of small firms, people hoping to establish their own business, and those with special (e.g. academic) training who are unemployed or threatened with unemployment. Part of the curriculum includes a supervised development project in one of the companies participating. An unemployed person has a good chance of finding employment in the company whose problems he already knows.

Two small enterprise aid experiments were started in 1982, one in Lapland and the other in rural areas involving 33 municipalities so far. The aim is to support the creation of businesses in subsidiary occupations in areas such as home industry, tourism, and subcontracting by using local resources or supplying local markets. The objectives are, on purpose, not too closely defined. Anyone can apply for assistance, jobs may be part-time or full-time, and initial investments and labour costs in the start-up phase can be subsidized.

Enthusiasm has so far been high. Applications have poured in for aid in such fields as mechanical contracting and machinery repairs, machine tools, home industry, fur farming, greenhouse cultivation, home bakeries etc. In 1983, about 500 full-time and 300 part-time jobs were wholly or partly created through these measures.

From the beginning of 1985, unemployment benefit up to FIM 50 000 (approx. USD 8 000) or FIM 2 500 a month for two years will be payable to an unemployed person setting up his own business.

## VILLAGE REVIVAL

Village development through village committees started on a voluntary basis in the mid-1970s, with a view to providing outlets for

initiative and independent action particularly in the rural areas. The impetus has usually come from the threat of depopulation, abandonment of farms or termination of services, but it is also a reaction against the tendency towards top downwards planning and the realization that co-operation achieves more than isolated action.

Some initiatives aim directly at job creation. Successful examples include traditional, but almost forgotten, tar pits, which are selling all the tar they can produce, and a revival of and increased demand for village smithies, repair shops and home industries. Sidelines for local shops are studied to enable them to stay in business.

Indirectly, co-operation in forestry and farming improves returns and thus supports the local economy. The same is true for work on new ideas and the improvement of the residential, cultural and natural environment, which can be the decisive factor for maintaining an attractive neighbourhood and faith in the future.

Investment costs can often be kept to a minimum if the villagers contribute to the work and the community to the material costs. Village meetings and village committees have proved to be a flexible channel for contacts in questions concerning co-operation needs, resettlement of returning immigrants etc. Some 1 800 village committees had been set up by 1983. It is estimated that approximately 6 000–8 000 jobs have been created through the work of village committees.

## RESOURCES AND THEIR USE

An inventory can be made of the various authorities, organizations, interest groups etc. which organize and put human and material resources into use. These agents include local authorities and their economic policies, district administrations of ministries, national employment schemes, chambers of commerce and other economic organizations, banks and other financing institutions, universities and research

## RESOURCES AVAILABLE FOR PROMOTING ENTREPRENEURSHIP

	1. Market & community surveys	2. Pre- requisites	3. Solidarity	4. Co- operation	5. Reorgan- izing resources	6. Creating resources	7. Innovations (demand, products)
Policies of local authorities	x	x					
Regional associations	x		x				
Ministries		x			x		
Chambers of commerce, other organizations	x	x			x		
Universities, research institutions	x				x	x	x
Credit institutions					x	x	
Local projects			x	x	x	x	
Technology projects					x	x	
Entrepreneur courses					x	x	x
Village committees			x	x	x		
Idea competitions			x	x			x
Employment of handicapped					x	x	
Youth employment		x			x	x	
Capitalization of unemployment benefits					x	x	

institutions, employment and entrepreneur training courses, village committees, technical consultants, and as the most important sine qua non resource the vision, initiative and effort of the individual.

Taking into account Finnish economic and social structures, the table above summarizes the organizational resources converging to promote entrepreneurship and the necessary prerequisites. Generally speaking, resources are needed for the following purposes:

1. to survey the basic situation: resources, strong and weak points, local market openings and community needs;
2. to put in place the basic prerequisites (infrastructure) for enterprise creation;
3. to generate and foster solidarity;
4. to promote and organize co-operation;
5. to reorganize and activate available but underused production resources;
6. to stimulate new production resources;
7. to innovate additional demand and new products.

Best results are achieved when each agent concentrates on its most appropriate domain. The requirements are not mutually exclusive. Every activity includes a variety of elements whose relative importance differs in degree

from case to case. In the table, the resources are classified according to where their emphasis lies.

A rough estimate suggests that some 10 000–15 000 local jobs (total labour force 2.2 million) can be created or salvaged annually if new and favourable attitudes towards independent enterprise can be maintained and some obstructive administrative rulings and attitudes reversed.

Successful policies for local development are those which foster initiative and entrepreneurial spirit: willingness to work, faith in the future, creativity, learning and training. Society should show the courage to invest selectively in creative resources.

Human resources are an inexhaustible reserve. Their better use will call for policies designed to provide a just and encouraging environment for persons to pursue their livelihoods and aspirations. New and improved attitudes in favour of co-operation, to replace stereotyped thinking in terms of public and private sectors, are needed by the local authorities and other social partners. In this way local prosperity is made a joint project to be pursued by the whole community. And the more people employ themselves and others, the lighter will be the burden on employment policies.

# THE NEEDS OF WORKING LIFE IN THE PLANNING OF FINNISH EDUCATION

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## INTRODUCTION: THE FINNISH EDUCATIONAL SYSTEM AND ITS DEVELOPMENT

The Finnish educational system consists of three stages: comprehensive education, upper secondary education and higher education. The present 9-year compulsory comprehensive school is divided into a 6-year lower level and a 3-year upper level. Upper secondary education in Finland refers to education following the compulsory comprehensive school and preceding studies in universities or other institutions of higher education. It includes both the upper secondary school, which provides general education, and vocational education in a wide variety of forms. Higher education covers education in universities and other institutions of higher education.

The Finnish educational system has been undergoing far-reaching changes since the 1970s. The main emphasis has been on youth education, and the reform of adult education is still only at the planning stage. Education has been developed in accordance with the principle of a uniform school, by which is meant that the various components of the system are linked together as an integrated whole. Under this principle, all students completing the comprehensive school are eligible for admission to any institution providing upper secondary education, with the exception of studies for which entrants must have the matriculation examination. Vocational education is to be organized into broad basic fields of study, which, after an initial general period common to all, lead to specification at different levels. The upper secondary school will be further developed as an educational institution providing a three-year course of general education

and general preparation for university studies. In universities and other institutions of higher education, a channel will also be opened for students who have passed vocational examination at the upper secondary level but not the matriculation examination.

Nowhere will the changes caused by the reform now under way be greater than in vocational education. The 650 courses currently available in vocational institutions will be combined into 25 broad "basic lines". Vocational education is not designed to prepare a student immediately for a specific job or occupation in working life but rather to provide qualifications in a certain vocational field. Each field consists of several occupations requiring the same basic skills and knowledge. Organizing instruction in this way enhances vocational flexibility i.e. it enables people with basic vocational education to switch jobs and occupations without the need for thorough retraining. In the educational system now being reformed, students first choose the field of study and only later the level, so that it is still possible for them during the initial stage of their training to decide how far they intend to continue their studies.

The implementation of the reform of vocational education at the upper secondary level was started in Finland in 1982 and it is due to be completed by 1988. The goal, as laid down in the Act on the Development of Upper Secondary Education of 1978, is that at the close of the implementation period all students completing their studies in either a comprehensive school or an upper secondary school will be able to enter either vocational education at the upper secondary level or an institution of higher education. Hence, basic vocational

education will be available to all even if there is no certainty that the entire age cohort can be employed immediately after training. An important objective will therefore be to distribute the total number of places in vocational institutions among the various branches and levels of education according to society's educational needs and the requirements of working life, as is also provided in the act mentioned above.

This article first examines the concept of educational need in general terms and then goes on to describe how attempts have been made to assess training needs in Finland at different times and how the requirements of working life have been taken into account in recent years.

#### EDUCATIONAL NEEDS AND THE DEVELOPMENT OF QUANTITATIVE PLANNING

The concept of educational need is central to educational planning. Nevertheless, the concept cannot be defined unambiguously, nor can all its dimensions be gauged. Educational needs can be approached from several angles and examined at many levels — different educational needs frequently contradict each other. At the most general level, one can speak of social educational needs, where the emphasis is on those facets which are regarded as the major social objectives of education as a whole. In this context, attention is mainly paid to cultural, civil and social aspects of educational needs, which it is endeavoured to include in the education of all citizens.

Educational planning should also take into account the subjective educational needs of the individual, although they should be related to social educational needs. The ideal objective of educational planning based on subjective educational needs is that education should offer everybody an opportunity to enter the

field of study they wish and which best corresponds to their abilities.

When examining vocationally-specialized education (vocational training and higher education), the educational needs of working life assume particular importance. The needs of working life can be analyzed from different vantage points according to whether emphasis is placed on needs associated with vocational education and the cultural aspects of working life, on needs related to direct occupational skills or on needs connected with the development of work, creativity and the theoretical principles of work. All these are of central importance in educational planning; for example, the overestimation of the educational needs necessary for the management of present occupational tasks may result in the underestimation of the educational needs which will be necessary for utilizing the future productive potential and for flexible adaptation to changes in the labour market. The importance of education which fosters creativity and innovation should not be underestimated in a technically evolving society.

Those aspects of educational needs considered so far have been largely of a qualitative nature. Educational needs can also be examined from a quantitative point of view. Quantitative training needs are of major importance to both vocational education and working life. Here educational planning is concerned with such questions as how many people will need vocational education and how education should be distributed among various branches of study. The numbers to be educated and trained in various branches should be planned so that the supply of qualified manpower corresponds to labour market requirements. On the other hand, education should also be planned so that the social targets set can be attained. Quantitative educational planning based on the needs of working life aims at matching the demand for and supply of qualified manpower.

The Finnish authorities have for long been occupied with trying to ensure that the num-



bers receiving education and training is appropriate from the point of view of society, individuals and working life. In higher education, this matter was already the subject of special attention before World War II. Then the concern was that it would be impossible to find sufficient jobs for a large graduate labour force and that there would also be other harmful effects. In the 1960s, despite the rapid growth in the numbers of students, the main cause for concern was no longer overeducation, but rather what could be done to enable scientific research in Finland and the instruction provided in universities and other institutions of higher education to keep pace with international developments. In vocational education, the chief concern in the 1950s and 1960s was to increase the numbers in training so as to satisfy the needs of Finland's expanding industries.

In the late 1960s, the quantitative needs of vocationally-specialized education were assessed by an ad hoc committee, the Committee on the Structure of Education. This committee was the first one in Finland to take an overall view of education at the post-comprehensive level. The committee assessed future developments in the structure of education in the light of the needs of working life by applying the so-called manpower requirement approach. According to this method, educational needs should be assessed on the basis of developments in the industrial structure and in the structure and inherent nature of occupations.

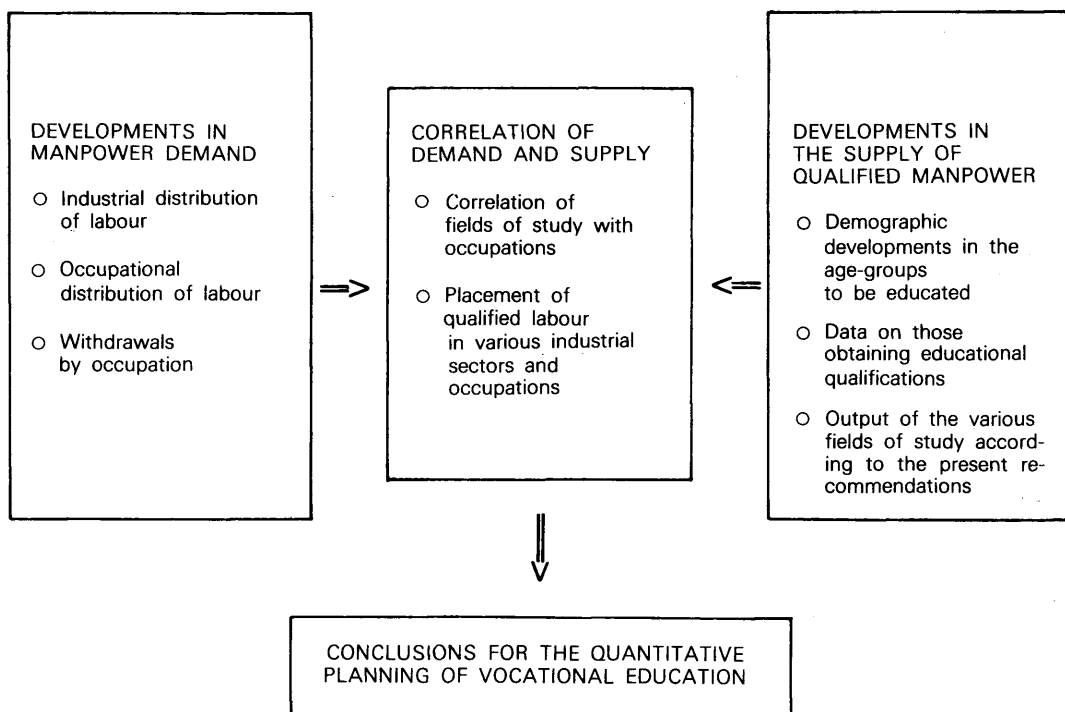
A comprehensive review of national educational needs was next considered necessary in the late 1970s, when a committee was appointed to draw up a proposal for a national programme of vocationally-specialized education for the period 1979–1988. The preparation of the programme was part of the planning of the reform of upper secondary level schooling based on a decision in principle made by the Government in 1974. The committee was principally concerned with assess-

ing labour market needs, but it also endeavoured to take into account other aspects, such as the different effects of the rapid changes in the educational system and factors related to the individual's desire for education. The findings of the committee were utilized in the guidelines for the implementation of the reform of upper secondary level schooling and in the plan for the development of institutions of higher education in the period 1979–1986.

The most recent report on training needs was prepared by the Advisory Council on Educational Planning, appointed in 1980. One of the reasons for appointing the Council was the expectation of rapid and significant qualitative changes in working life. It was considered that the estimates of changes in working life prepared by the previous committee and the plans for vocationally-specialized education made on the basis of them no longer corresponded to reality in all respects. In the new report, the area of investigation is wider; the mandate covers not only education at the upper secondary and university levels, but adult education as well. The time horizon of the report is also longer, extending up to the year 1995. The approach applied by the Council was largely based on an adaptation of the manpower requirement approach. However, efforts were also made to take into account the various needs of society and the population, trends in the demand for education and economic aspects related to the organization of education.

## CHANGES IN WORKING LIFE AND EDUCATIONAL PLANNING

This section examines in more detail the work of the Advisory Council on Educational Planning, the results of the projection of manpower demand, and the conclusions drawn for the planning of vocationally-specialized education. The method used by the Council can be illustrated in a simplified manner by means of the following schematic figure:



#### TRENDS IN MANPOWER DEMAND

The Council's projection of changes in the demand for labour by industrial sector is shown in Table 1.<sup>1</sup> The results are in line with other forecasts of economic developments in Finland: the proportion of the population engaged in agriculture and forestry continues to decline, the growth in manufacturing industry's share decelerates, the proportion of those employed in construction falls, and the majority of new jobs are created in the tertiary sector.

An estimate of changes in the occupational structure of manpower demand is presented in Table 2.

Developments in the occupational structure are assumed to proceed fairly steadily, with no radical changes in the relative positions of occupational groups. In addition to persons in category 14 (Public safety, nursing and social workers), who are engaged mainly in the

provision of public services, the largest increases in relative shares are expected to be in categories 1 (Higher level administrative and managerial work) and 2 (Planning, administrative and research work in the technical field), which cover administration, economic management and planning work, and in category 5 (Pedagogic and cultural work). The share of category 12 (Forestry, farmers and other agricultural work) is forecast to experience the sharpest fall, or about 0.3 per cent per annum. The shares of category 8 (Manufacturing work) and category 10 (Warehouse and transport work) will also decline substantially, or by almost 0.2 and 0.1 per cent per annum, respectively. These categories are also expected to decline in absolute terms, as, too, are categories 7 and 9.

The overall trend of change is typical of a technologically advancing society: the shares of employees engaged in services, management and planning grow, while the share of tasks involving simple manual work declines. The occupational groups associated with data processing are expected to grow particularly, although the Council did not examine the

<sup>1</sup> In both Tables 1 and 2, demand has been raised to the full-employment level, because in the future basic vocational education will be offered to all those who have completed their comprehensive schooling, so that the educational qualification of the unemployed will not be assessed systematically.

**TABLE 1. FORECAST OF DEVELOPMENTS IN THE ECONOMICALLY ACTIVE POPULATION IN FINLAND IN 1980, 1985, 1990 AND 1995, BY MAIN INDUSTRIAL SECTOR, 1000 PERSONS**

Industrial sector	1980	1985	1990	1995	Change in 1980-1995
Agriculture and forestry	282	249	220	192	- 90
Mining and quarrying	8	7	6	5	- 3
Manufacturing	560	574	590	603	43
Electricity, water and gas	26	27	28	28	2
Construction	160	152	144	138	- 22
Trade	321	327	333	338	17
Transport and communication	170	173	176	179	9
Financing, insurance etc.	125	131	138	145	20
Services	570	626	688	753	183
Whole economy	2 222	2 266	2 323	2 381	159

SOURCE: Report of the Advisory Council on Educational Planning, Committee Report 1983:60.

**TABLE 2. ESTIMATE OF THE OCCUPATIONAL STRUCTURE OF THE ECONOMICALLY ACTIVE POPULATION IN 1995, NET CHANGES BY CATEGORY OF OCCUPATION IN 1980-1995 AND THE GROSS DEMAND FOR NEW LABOUR BY CATEGORY OF OCCUPATION IN 1980-1995**

Category of occupation	Size of category in 1995		Net change in 1980-1995		The gross demand for new labour in 1980-1995
	1000 persons	percentage distribution	1000 persons	percentage distribution	
1 Higher level administrative and managerial work	117	4.9	44	1.6	62
2 Planning, administrative and research work in the technical field	69	2.9	26	1.0	38
3 Wholesale and retail dealers, lower level administrative and managerial work	110	4.6	26	0.8	57
4 Technicians and supervision	102	4.3	23	0.7	48
5 Pedagogic and cultural work	152	6.4	44	1.6	74
6 Secretarial and clerical work	248	10.4	7	- 0.4	66
7 Sales personnel	113	4.7	- 3	- 0.5	33
8 Manufacturing work	387	16.3	-28	- 2.4	126
9 Assisting and auxiliary work in manufacturing	111	4.7	- 6	- 0.6	33
10 Warehouse and transport work	149	6.3	-21	- 1.4	41
11 Repair and maintenance work	125	5.2	20	0.5	49
12 Forestry, farmers and other agricultural work	195	8.2	-87	- 4.5	60
13 Service work in the private and public sectors, housekeeping and service supervising, travel service work	209	8.8	31	0.8	94
14 Public safety, nursing and social workers	293	12.3	84	2.8	140
Total economically active population	2 381	100.0	159	-	919

SOURCE: The same as in Table 1.

prospects for the so-called information occupations in detail. In the occupational classification used by the Council, the information occupations are distributed among several categories. However, most of them fall under categories 1–3 and 5, which are expanding their shares substantially, and to some extent also under categories 6 and 14.

#### THE COUNCIL'S RECOMMENDATIONS CONCERNING THE PLANNING OF VOCATIONALLY-SPECIALIZED EDUCATION

The existing plans for training places in vocationally-specialized education, which the Council was assigned the task of revising by means of its forecasts, were based on a report similar in approach prepared by the ad hoc committee appointed in the late 1970s. Hence, the Council did not propose many changes, nor were they very radical. In most cases, the plans were extended in line with trend for the new planning period, although some revisions were recommended.

The most important proposed changes are as follows:

- At upper secondary level, it is recommended that the number of training places be increased in agriculture, car and transportation engineering, construction engineering, process and laboratory engineering, commerce and administration, and health care. Correspondingly, the number of places would be reduced in clothing technology, handicrafts and applied arts, home economics and institutional catering, and seafaring.
- At university level, some increase is proposed in the number of openings in business studies, social sciences, and agriculture and forestry. The reductions would centre on law, the natural sciences and medicine.

As can be inferred from the proposed changes, many other factors have to be taken into account before proposals for quantitative targets in vocational education can be made

on the basis of projections of manpower demand. For instance, although the demand for qualified labour in a particular occupational category is expected to decline, an increase in education in that field may nevertheless be proposed (e.g. construction engineering). This could be because the current workforce in the occupation concerned is poorly educated or has a heavy preponderance of personnel in the older age-groups — in which case withdrawals are substantial i.e. the gross need for new labour is great even though the occupational category declines in net terms — or because the field of training is widely linked to various occupations in working life.

The Council stresses the importance of vocational adult education in its proposals. In an economy subject to rapid technological and organizational changes, an increasing number of employees will be forced to face a change of occupation during their career. As a result of these changes, some jobs will disappear and new ones will be created. A significant proportion of the new manpower needs arising in this way can be satisfied by retraining people already in working life; indeed, for part of the labour force retraining will be necessary to ensure they stay in employment. However, it is neither possible nor sensible to make detailed quantitative plans for adult education with respect to changes in working life over such a long time horizon. Rather, adult education should be able to adapt quickly to new needs as they arise, thereby functioning as an element enhancing the flexibility of the vocational education system.

#### APPRAISAL OF QUANTITATIVE EDUCATIONAL PLANNING AND FUTURE PROSPECTS

In Finland, quantitative estimates based on the needs of working life have been used for quite a long time in planning the development of vocationally-specialized education. Experience shows that their preparation is worthwhile in spite of the many uncertainties involved in forecasting. In fact, the view in Finland has

been that this kind of preparatory work is necessary, especially for facilitating decision-making concerning the numbers to be educated, since such decisions have to be made in any case. There must exist some overall framework for developments in the numbers of training places in various fields. The general nature of plans needs to be emphasized, however: long-term national plans should be flexible and contain, for example, adequate provision for temporary solutions to deal with unanticipated needs, the permanence of which is difficult to ascertain.

The rapid pace of changes in society, the economy and the labour market and the difficulty of forecasting them call for continuity in educational planning. The implementation of plans and the accuracy of the assumptions underlying them must be monitored and there should be a readiness to revise plans whenever necessary. The Council considers that long-term quantitative planning covering the entire educational system should be subjected to a thorough reappraisal at intervals of about five years. The authors of the present article believe that the system of educational planning should be improved in, among other things, the following respects:

1. The method of planning should be improved. The statistical and other data base is poor, particularly with regard to the estimation of developments in the occupational structure. For example, there is only sparse information available on occupational shifts among the economically active population, although their quantitative importance is considerable. The planning framework is practical, albeit rather crude: by applying advanced communications technology, it would be possible to make planning methods more sophisticated, reliable and flexible.

2. Planning at the regional level and in the various fields of study should be linked more closely to planning at the national level. At present, the different branches and levels of quantitative educational planning are too loosely connected. Regional differences in educational needs are substantial, and national plans do not always provide a sufficiently clear-cut framework for the dimensioning of regional education.
3. In the planning of vocationally-specialized education, qualitative factors are becoming increasingly important because of technological changes in production. Hence, quantitative and qualitative planning should be linked together more closely. Qualitative changes in working life are obscuring differences between occupations as the skill and knowledge requirements of different occupations converge. Nor it is always most important, not even in vocational education, for what a person is trained, but rather what kind of basic information education provides. For example, qualifications pertaining to information technology may increasingly become skills associated with general vocational education, the good command of which will facilitate placement in several seemingly different occupations.

At present, the system of planning quantitative targets in basic vocationally-specialized education in Finland is fairly comprehensive and practical. In the future, it should be developed at more levels and be made better able to respond quickly to changes in working life. With the growing significance of adult education, shorter-term reviews of adult education needs and plans should be linked flexibly to overall quantitative plans. In this way, quantitative educational planning could help to realize and strengthen the principle of continuity, which has been adopted as a major basis for the development of education in Finland.

# NORDIC CO-OPERATION IN MANPOWER POLICY

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Co-operation between the Nordic countries in the field of manpower policy has its origins in an agreement on a common Nordic labour market signed by the governments of Finland, Sweden, Norway and Denmark in 1954. The agreement was renewed in 1982, when Iceland also became a signatory. During the thirty years of its existence more than a million Nordic citizens have taken advantage of the opportunity provided by the agreement to settle and work in another Nordic country. This figure represents almost 4.5 per cent of the total population of the Nordic countries.<sup>1</sup>

## BACKGROUND

The Nordic countries are regarded as one of the most peaceful corners of our turbulent world. Inter-Nordic frontiers are open, co-operation takes place in almost all spheres of life, and the political will to promote co-operation exists in each member country. Nor has the desire for co-operation been weakened by differences in foreign policy orientation between the countries. This can perhaps be explained by their similar history and social development, close cultural and religious affinities, and common scale of values.

Life has certainly not always been peaceful and harmonious in the Nordic region. Frontiers have altered, and power relations have changed. Three of the Nordic countries — Finland, Iceland and Norway — did not achieve their national independence until the present century. However, all the Nordic countries have become increasingly committed to the view that five fairly small countries are together a far more potent and efficient unit than five small national states separately.

## FORMS OF NORDIC CO-OPERATION

Intergovernmental co-operation is effected mainly through the Nordic Council and the Nordic Council of Ministers. The Nordic Council, which was set up in 1952 and joined by Finland three years later, is the forum for co-operation between the national assemblies and governments of the five countries. The Council of Ministers, established in 1972, is the organ for co-operation between governments. Subordinated to it are 16 committees of government officials and some sixty institutions in various parts of the Nordic region. In 1982, these bodies had a combined budget of NOK 242 million, to which each country contributed less than one-thousandth of its national budget. The contributions of member countries are determined according to the country's gross national income, Finland's contribution currently being 17 per cent.

At the regional level, cross-border co-operation between local authorities was put on a formal basis by an agreement concluded in 1976. Dealings and collaboration between people in frontier districts have, however, gone on for centuries, and changes in frontiers and power relations have done little to diminish them.

The closeness of contacts is also reflected at the private level in various associations and organizations, in industry and trade, and in the lives of private persons. In foreign trade, it has become customary to talk about the Nordic domestic market.

## COMMON LABOUR MARKET

Inter-Nordic migration is certainly not a phenomenon which has arisen only since World War II. For centuries, people have left

<sup>1</sup> Sweden has 8.3 million inhabitants, Denmark 5.1, Finland 4.8, Norway 4.1 and Iceland 0.2.

**TABLE 1. EMIGRATION IN THE NORDIC COUNTRIES**

Reporting country	To						
	Denmark	Finland	Iceland	Norway	Sweden	Other countries	All countries
<b>Denmark<sup>1</sup></b>							
1970	.	.	.	.	.	.	.
1975	.	323	461	3 661	10 257	21 932	36 634
1976	.	236	492	2 425	4 025	19 113	26 291
1977	.	228	499	2 564	2 609	17 699	23 599
1978	.	230	562	2 337	2 138	17 579	22 846
1979	.	307	628	2 034	2 287	18 402	23 658
1980	.	295	790	2 629	2 489	19 272	25 475
1981	.	257	727	3 354	1 958	19 006	25 302
1982	.	226	742	3 251	1 700	18 378	24 297
<b>Finland</b>							
1970	440	.	1	368	39 475	4 211	44 495
1975	189	.	3	191	10 764	1 090	12 237
1976	209	.	5	224	15 334	1 574	17 346
1977	285	.	3	480	14 634	2 807	18 209
1978	340	.	11	639	11 827	3 510	16 327
1979	355	.	9	626	12 803	2 868	16 661
1980	235	.	7	519	11 245	2 818	14 824
1981	182	.	9	486	6 774	2 591	10 042
1982	185	.	7	464	4 510	2 237	7 403
<b>Iceland</b>							
1970	504	11	.	167	670	840	2 192
1975	363	6	.	221	296	705	1 591
1976	467	9	.	278	738	612	2 104
1977	547	8	.	302	921	589	2 367
1978	545	—	.	380	537	771	2 233
1979	621	22	.	298	649	783	2 373
1980	575	5	.	349	708	699	2 336
1981	518	18	.	361	411	670	1 978
1982	514	8	.	317	320	489	1 648
<b>Norway</b>							
1970	3 071	316	215	.	3 247	11 503	18 352
1975	2 279	277	197	.	2 810	9 219	14 782
1976	2 269	202	211	.	2 591	8 792	14 065
1977	1 986	195	233	.	2 133	9 822	14 369
1978	2 103	294	308	.	1 799	10 347	14 851
1979	2 196	419	347	.	2 149	9 974	15 085
1980	1 858	426	245	.	1 935	10 241	14 705
1981	1 850	422	376	.	1 659	10 215	14 522
1982	2 467	408	385	.	1 811	9 657	14 728
<b>Sweden</b>							
1970	3 397	10 961	127	2 602	.	11 566	28 653
1975	4 535	7 976	204	2 237	.	12 297	27 249
1976	4 912	6 499	186	2 194	.	11 731	25 522
1977	4 154	5 311	283	2 498	.	8 832	21 078
1978	3 577	5 349	447	2 482	.	10 313	22 168
1979	2 890	6 889	550	2 085	.	11 053	23 467
1980	2 366	10 247	519	2 268	.	14 439	29 839
1981	2 248	12 199	795	2 412	.	11 786	29 440
1982	2 215	11 810	726	2 536	.	11 094	28 381
<b>Nordic countries</b>							
1970	7 412	.	.	.	.	.	.
1975	7 366	8 582	865	6 310	24 127	45 243	92 493
1976	7 857	6 946	894	5 121	22 688	41 822	85 328
1977	6 972	5 742	1 018	5 844	20 297	39 749	79 622
1978	6 565	5 873	1 328	5 838	16 301	42 520	78 425
1979	6 062	7 637	1 534	5 043	17 888	43 080	81 244
1980	5 034	10 973	1 561	5 765	16 377	47 469	87 179
1981	4 798	12 896	1 907	6 613	10 802	44 268	81 284
1982	5 381	12 452	1 860	6 568	8 341	41 855	76 457

<sup>1</sup> Excl. emigration to the Faroe Islands and Greenland

**TABLE 2. IMMIGRATION IN THE NORDIC COUNTRIES**

Reporting country	From						
	Denmark	Finland	Iceland	Norway	Sweden	Other countries	All countries
<b>Denmark<sup>1</sup></b>							
1970							
1975		278	469	2 522	5 359	19 193	27 821
1976		281	604	2 498	4 928	20 702	29 013
1977		340	741	2 159	4 194	20 976	28 410
1978		368	751	2 254	3 641	20 972	27 986
1979		392	862	2 328	2 785	22 654	29 021
1980		262	856	1 996	2 248	20 611	25 973
1981		206	691	2 038	2 245	18 463	23 643
1982		205	659	2 577	2 182	18 294	23 917
<b>Finland</b>							
1970	146		—	152	8 910	1 866	11 074
1975	174		2	124	5 258	2 749	8 307
1976	141		11	153	5 010	2 072	7 387
1977	173		8	162	5 092	2 145	7 580
1978	169		4	223	4 725	2 063	7 184
1979	264		14	384	7 058	2 402	10 122
1980	267		3	394	10 202	2 760	13 626
1981	210		13	398	12 339	2 811	15 771
1982	202		5	371	11 239	2 844	14 661
<b>Iceland</b>							
1970	121	9		72	81	345	628
1975	359	4		176	158	568	1 265
1976	332	7		135	112	467	1 053
1977	331	3		185	271	568	1 358
1978	391	17		225	383	517	1 533
1979	428	11		257	486	666	1 848
1980	468	9		227	452	640	1 796
1981	548	9		291	662	651	2 161
1982	620	17		304	628	724	2 293
<b>Norway</b>							
1970	2 554	461	277		2 933	11 158	17 383
1975	3 539	333	294		2 181	13 204	19 551
1976	2 196	270	342		2 129	14 018	18 955
1977	2 315	481	429		2 459	13 719	19 403
1978	2 180	716	453		2 371	13 105	18 825
1979	1 926	681	364		2 092	12 768	17 831
1980	2 387	551	420		2 231	13 187	18 776
1981	3 113	526	438		2 394	13 227	19 698
1982	3 147	503	366		2 503	13 949	20 468
<b>Sweden</b>							
1970	3 609	41 479	772	2 837		28 629	77 326
1975	11 507	12 194	341	2 815		17 276	44 133
1976	3 996	15 904	816	2 639		22 137	45 492
1977	2 572	15 013	1 055	2 180		23 185	44 005
1978	2 000	12 043	586	1 749		19 809	36 187
1979	2 134	12 501	736	2 118		19 536	37 025
1980	2 521	12 058	823	2 018		22 006	39 426
1981	1 881	7 022	517	1 661		21 191	32 272
1982	1 635	4 689	338	1 766		21 953	30 381
<b>Nordic countries</b>							
1970	6 430						
1975	15 579	12 809	1 106	5 637	12 956	52 990	101 077
1976	6 665	16 462	1 773	5 425	12 179	59 396	101 900
1977	5 391	15 837	2 233	4 686	12 016	60 593	100 756
1978	4 740	13 144	1 794	4 451	11 120	56 466	91 715
1979	4 752	13 585	1 976	5 087	12 421	58 026	95 847
1980	5 643	12 880	2 102	4 635	15 133	59 204	99 597
1981	5 752	7 763	1 659	4 388	17 640	56 343	93 545
1982	5 604	5 414	1 368	5 018	16 552	57 764	91 720

<sup>1</sup> Excl. immigration from the Faroe Islands and Greenland.



poorer localities in search of a better living in more prosperous regions. The centuries-old settlement in the so-called Finnish forests of Sweden and Norway bear witness to the migration of the people of Finland, the disputed borderlands between Novgorod — later Czarist Russia — and the great power of Sweden.

Nevertheless, the conclusion of the Nordic labour market agreement, and the agreement dispensing with the need for passports for travel between member states which it presupposed, could be regarded as a unique event in the tense international climate of the 1950s. Liberalization occurred in the Nordic countries and the sense of affinity and equality among the Nordic peoples took root. It was as a result of these agreements and the convention on social security which followed in their wake that Nordic co-operation began to be felt in the everyday lives of ordinary citizens.

In fact, the labour market agreement did no more than legalize what had already become common practice. However, the objective formally expressed in the agreement on full employment in all the Nordic countries was significant from the point of view of social policy. Without being perhaps recognized at the time, it created a basis for the implementation of the manpower policies later adopted in the Nordic countries.

The agreement also sought to channel labour flows through official employment service organizations. But, probably because people were accustomed to moving freely across inter-Nordic borders, this met with only a modicum of success. Co-operation between the labour market authorities got off to a slow and hesitant start; nor did the 1973 agreement laying down common guidelines for employment services notably improve the situation.

The agreement on the common labour market for long remained as some kind of a symbol or doctrine of the spirit of co-operation, brotherhood and equality among the Nordic peoples. Nobody was prepared to acknowledge

the attendant drawbacks, which, it was thought, would disappear automatically along with progress in the region.

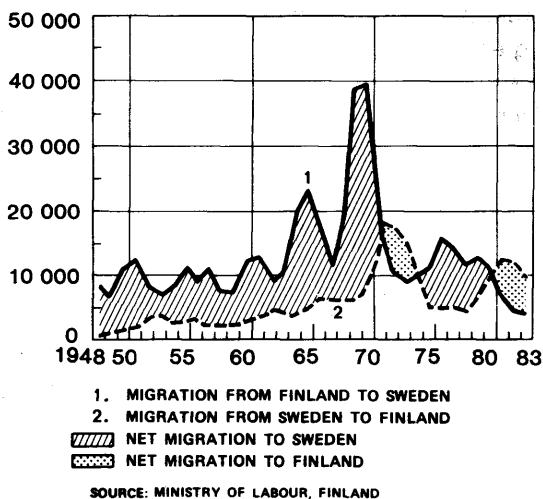
## LABOUR MOBILITY

Finland took the first step towards revising the labour market agreement when, at the end of the 1960s, it became clear that emigration to Sweden was getting out of hand. It was beginning to have adverse effects not only on the availability of the country's labour supply but also on population growth. Moreover, the growing Finnish minority was beginning to create problems in Sweden.

At the end of 1983, Finnish citizens accounted for more than 90 000 of Sweden's labour force and for about 150 000 of its total population. Since World War II, about 150 000 Finns have taken out Swedish citizenship and it is estimated that the number of immigrants from Finland in the postwar period, together with their descendants, totals more than 400 000. This represents more than 8 per cent of Finland's population.

Several reasons have been put forward to explain the high rate of Finnish emigration. Finland differs greatly from emigration countries in general in that it is, by interna-

**CHART. 1. MIGRATION BETWEEN FINLAND AND SWEDEN IN 1948-1981**



tional standards, a wealthy and highly industrialized country, whose citizens enjoy high standards of education. Migratory flows have been attributed to far-reaching structural change, unsuccessful regional policies, the higher standard of living and wage level in the richer and more rapidly industrialized Sweden, earlier direct recruitment activities and the easiness of emigration. In addition, migration has a cumulative effect: the more people leave for Sweden, the more others are tempted to follow in the knowledge that a Finnish immigrant community already exists in Sweden. It should, however, be pointed out that the Nordic peoples have generally migrated a lot, and the movement between Finland and Sweden has always operated in both directions. As a rule, when economic conditions in Sweden have taken a turn for the worse, the return flow to Finland has tended to exceed emigration.

#### THE ARRANGEMENT BETWEEN FINLAND AND SWEDEN

In the early 1970s, the labour ministers of Finland and Sweden looked into the possibilities of intensified co-operation between the manpower authorities of the two countries. These negotiations led to the conclusion in 1973 (renewed in 1984) of a so-called channelling arrangement aimed at preventing the direct recruitment of labour and at channelling migrants through the employment service. The labour market organizations of both countries were parties to this agreement. But, while the agreement succeeded in stopping the recruitment of labour, it did not bring about any increase in the role of employment services in channelling labour flows. Evidently, those wishing to migrate do not have complete confidence in the willingness and ability of the authorities to help them to obtain a job in the neighbouring country, or then people are deterred by the length and slowness of official channels. Nowadays, most Finns have relatives or friends in Sweden, and hence the quickest and easiest way of finding a job seems to be to visit the country concerned and seek work on the spot.

#### REVISED NORDIC LABOUR MARKET AGREEMENT

At the Nordic level, discussions on updating the labour market agreement were continued, and gradually unanimity was reached in all the participating countries on the need to modify the 1954 agreement to correspond to the social and economic changes that had taken place in the member countries. Furthermore, it was agreed that the revision of the agreement should in no way endanger the principle of freedom of mobility.

In the revised agreement concluded in 1982 and the attached protocols the main pillars of the 1954 agreement are retained. As before, citizens of the Nordic countries are free to settle and work in other Nordic countries, without the need for passports or work or residence permits.

The new agreement extends and defines more precisely the range of services the labour market authorities are obliged to provide. The aim is to ensure that the freedom to emigrate constitutes real freedom of choice, and that the act of emigration does not involve any loss of security for the individual and his family. The manpower authorities are required to provide information and assistance, suggest alternative courses of action, speed up their services and deal with major problems relating to emigration, such as housing, children's education etc. The same services are also available to those wishing to return to their home country. Supplementing the agreement is a set of common rules governing the operation of the employment service. To facilitate the co-ordination of procedural methods, employment service officials receive training at both the national and Nordic level.

The objective of full employment has been linked to wider social policy goals. Balanced regional and economic development in all member countries is regarded as a prerequisite for the successful operation of the common labour market.

A number of other Nordic agreements have an important bearing on the operation of the common labour market. In addition to the social security convention mentioned above, these include several agreements concerning the carrying on of occupations, the agreement on vocational rehabilitation and retraining, the agreement on unemployment insurance, the Nordic language convention and the cultural agreement. Also worth noting is the agreement between Finland, Norway and Sweden on a joint vocational training centre serving the region north of the arctic circle.

## THE FORMS AND CONTENT OF NORDIC LABOUR MARKET CO-OPERATION

The labour market agreement provides for the setting up of a Nordic Labour Market Committee (nordiska arbetsmarknadsutskottet, NAUT) to monitor and supervise the implementation of the agreement. The committee consists of two leading manpower administration officials from each country. It also functions as the preparatory and executive organ for the Nordic Council of Ministers (the labour ministers).

The labour ministers normally assemble once a year as a ministerial council to decide on policy guidelines for labour market co-operation and to deal with budget issues. At the same time, they approve the annual report of the Nordic Labour Market Committee and its proposals for new joint projects. Decisions are also made on measures to be taken on the basis of initiatives received from the Nordic Council.

In 1975 the labour ministers approved the programme for Nordic co-operation in manpower policy. This consists of two sections, one setting out principles, based mainly on the recommendations of the ILO and the OECD, the other a plan of action, which is revised at regular intervals. The latest revision is currently under way and aims at adopting the programme to the targets set in the revised labour market agreement of 1982.

A major principle underlying this co-operation is the endeavour to steer activities towards

those areas where practical results and realistic solutions can be achieved with a minimum of delay. In other words, the aim is that co-operation should take as concrete forms as possible.

In the light of these guidelines, the activity regulated by the Nordic Labour Market Committee centres on measures designed to promote employment, increase the availability of information needed in decision-making, improve co-operation between the employment service and vocational guidance, develop training schemes, assist people in less favourable circumstances, increase the social security of the unemployed, enhance the position of immigrants, foster the equality of the sexes in the labour market and increase Nordic co-operation in international organizations. The new labour market agreement calls for close co-operation between the labour market parties. The labour ministers meet with the representatives of employer and employee organizations in connection with their annual meeting. In addition, the Nordic Labour Market Committee holds negotiations with these groups. The opinions of the labour market parties are taken into account in formulating programmes for action, and the organizations may, whenever they wish, participate in the guidance and supervision of individual projects.

The work of the Nordic Labour Market Committee is carried out in four divisions, the working division and three specialist divisions. The service, research and employment divisions prepare proposals on new plans and projects for the Nordic Labour Market Committee and at the instigation of the Committee implement the measures they give rise to. Some of the projects are of a practical nature, dealing with the technical aspects of co-operation. The results obtained have made it possible to intensify co-operation between officials in the field.

Other projects consist of comprehensive reports and studies. Examples worth mentioning include a study on the mobility of capital and labour in the Nordic countries and the so-called core project, which surveys the challeng-

es facing manpower policy in the 1980s. A study examining the social costs of unemployment is currently under way as a joint project of the Nordic Labour Market Committee and the Nordic Government Officials Committee on Finance and Foreign Exchange Questions. The Nordic Labour Market Committee is also participating in a project aimed at creating a common economic and employment programme for the Nordic countries, which will be supervised by the countries' finance ministers and ministers for Nordic co-operation.

Studies on long-term unemployment and working time are being initiated. Finally, as regards the separate problem of youth unemployment, mention should be made of the so-called youth guarantee project, which is linked in part to the investigation of youth unemployment questions being carried out by the OECD.

The implementation of labour market co-operation involves daily collaboration between officials at all levels of administration. To promote contacts between field administrators, the Nordic Labour Market Committee organizes a special seminar every year dealing with some aspect of co-operation. At these seminars, officials can exchange experiences and information relating to the special problems of their field with their Nordic colleagues.

## BILATERAL CO-OPERATION

Co-operation between the manpower authorities of Finland and Sweden has traditionally been close, mainly because hundreds of thousands of Finns work in Sweden and migration between these countries is brisk. Not surprisingly, therefore, greater progress has been made in, for instance, co-operation between the Finnish and Swedish employment services than at the Nordic level in general. As examples of this co-operation mention can be made of the joint training of officials in charge of the Nordic employment service and the exchange of officials. Also worth noting is the experiment initiated a few years ago whereby

an unemployed person seeking work who has received a job offer in the neighbouring country may travel free of charge to the country in question to find out more about the job on the spot before making a final decision.

In both Finland and Sweden, the manpower authorities are responsible for matters relating to emigration. Hence, the position of the large Finnish minority in Sweden has been a common point of interest. A few years ago, a conference on the subject "The Finnish minority in Sweden — a growing task for co-operation" was arranged in Stockholm. In addition to the ministers responsible for emigration, the ministers of social affairs and education in the two countries also attended this conference. A resolution was passed which included a comprehensive set of objectives for improving the position of Finns in Sweden and facilitating their return to Finland. A follow-up meeting was held in Helsinki in January 1984. The programme is being implemented through the permanent organs for co-operation of the authorities concerned and a working group has been appointed to co-ordinate monitoring.

A special Ministry of Labour working group has identified those areas where the need exists for similar co-operation between Finland and Norway. This has become necessary mainly because of the increased flow of labour to Norway in connection with Norway's expanding oil production. Although the responsibilities of the labour attaché at the Finnish embassy in Stockholm have been enlarged to embrace the Norwegian labour market, it would seem that this step is not adequate to ensure control over the position of Finnish labour in Norway.

## EVALUATION OF CO-OPERATION

Nordic co-operation in manpower policy has become varied and broad in scope, and, on the whole, it has taken a largely concrete form. This co-operation is highly valued, as, indeed, is Nordic co-operation in general. There is a tendency for any type of international co-

operation, once established, to develop a momentum of its own for the simple fact that its very existence is regarded as a good thing. All the more reason, therefore, to monitor its development closely and to question the appropriateness of the methods being applied.

Nordic co-operation is often described as a process of slow and gradual change. This applies equally to the co-operation taking place in the sphere of manpower policy. One particularly positive aspect of co-operation in this area is that past mistakes have been learned from and the correct conclusions drawn from this

experience. This is clearly discernible in the contents of the new labour market agreement, and in the linkages of manpower policy with broader social policy objectives, the most important of which fall within the area of economic, industrial, regional and educational policies. This new approach could, under favourable circumstances, lead to widespread support for the view that a common labour market of five small countries really is able to function more flexibly and efficiently, and ultimately to offer its members greater rewards, than five domestic labour markets operating separately.