Modern Labor Management in Finland (April 2014)

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Abstract — The aim of this paper is to enlighten the readers about Finnish labor management in relation to labor demand and supply. Foreigners in Finland especially youth are jobless due to global crisis and last few years of unstable economic recovery. It has been hard to find jobs and even harder to compete with natives for new labor market entrants. Migrants’ unemployment has increased much more than overall unemployment in Finland during the recession. Migrants, especially youth are experiencing long-term unemployment disasters due to rise in exclusion risks.

Yet, Finland is experiencing serious skills and labor shortages in a number of sectors. Highest shortages are experienced in high qualified employees in administrative and support services, accommodation and catering industries, technical sales staff, cleaners, sales employees and restaurant workers. Not only are labor shortages a problem but also problems of mismatch between labor demand and supply are challenging. It is hard to fill jobs despite the high unemployment rates. Jobseekers with relevant qualifications or skills are unwilling to take jobs in particular occupations or geographical areas, or have insufficient information about job opportunities. Employers are either unwilling or unable to offer attractive salaries or conditions to encourage occupational or geographical mobility. European Commission has taken Occupational and geographical mobility as a key element of the European Employment Strategy (European Commission, 2002a) but these strategies have not eliminated the “mismatch” problem in Finland.

Keywords — Finnish labor market, labor demand, labor supply, labor mismatch, modern labor management, skilled labor.

INTRODUCTION: STRUCTURE OF MODERN FINNISH LABOR MARKET

Like most of Nordic countries, Finnish labor market is inflexible and rigid contributing to high employment. Many scholars have suggested that smoothing of income over time is a natural feature of labor markets like in Finnish. Finnish turnover costs of hiring, quits and lay-offs are high, especially for unskilled employees. Perceptions of fairness and justice based on historical in Finland relationships affect work motivation and productivity. In such labor markets like Finland, there are risks of team losses or firm productivity failure due to decline in employees work. Accordingly to employees, income smoothing is useful when demand variations are reasonable and temporally. Also stable wage incomes over the contract period are preferable to volatile income flows since consumption expenditure is more easily planned under conditions of predictable wages than in the presence of potentially large income losses. This is why employers and employees enter into long-term work relationships (cf. Schultzze, 1984, Hall, 1980 and Nissim, 1984).

On the other hand, long-term job contracts, which add to job security, employees receive salaries in excess of their marginal revenue product in the early part of the employment period. With human capital accumulating, this pattern is often reversed with time, with wages and fringe benefits eventually equating the marginal labor product over the entire contract period. In this kind of labor management, salary inertias are viewed as an indispensable element of labor market efficiency due to the benefits of long-time contacts.

Long-term job contracts usually impart a rigid bias to money wages over the business cycle because the behavior of money wages differs from the auction labor markets. This means that relative wage positions remain broadly stable over the cycle while differentials between wages for skilled and unskilled wages widen in a downswing and narrow in an upswing reflecting the greater cyclical sensitivity of wages at the lower end of the wage spectrum. This means that optimal degree of labor market flexibility changes when unexpected demand or supply shocks occur, upsetting the framework of expectations incorporated into long-term work arrangements like climate change. Surprisingly in Finnish labor market, unemployment is necessary to labor market efficiency because it assists the optimal allocation of labor resources.

Question is, how much time does it takes to break through the short-run stickiness of wages and prices in the face of relative disturbances to produce the aggregate adjustments, (Schultze, 1984). Discussions about the need for greater labor market flexibility in Finland has focused on macro and micro climate changes in economic conditions and their short- and longer-run influence on output and inflation.

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2. A look at present Finnish labor market

According to Finnish unemployment survey between the years 1989-2013, in December 2013 Finland had unemployment rate of 7.9%. 2013 205 000 (margin error of ± 18,000), which was 26 000 more than the year before. The number of unemployed men was 112 000 women and 93 000. The unemployment rate in December 2013 was 7.9%, 0.9 % points higher than a year earlier. Men's unemployment rate was 8.4 and for women was 7.3%. The trend of the unemployment rate was 8.6%.

Chart 1: Monthly unemployment rate in Finland between the years 1989-2013

In this survey the unemployment rate is the percentage of unemployed people of the same age of the labor force. The official unemployment rate in Finland is a calculation of 15 to 74-year-old unemployed person. Percentage of the whole variation (15-74 year old) is taken as the labor force of the same age. In this survey, unemployed is a person who during the survey week was jobless, actively looking for employment in the past four weeks as an employee or entrepreneur and was available for work within two weeks. Also unemployed here is a jobless person waiting for an agreed job to start within three months, classified as unemployed if he or she could start work within two weeks. Unemployed also include a person being laid off, who met the above job search and availability for work criteria. Finnish labor force comprises of all 15-74 years of age who during the survey week were either employed or unemployed.

As seen in chart 1, there has been a rising trend in unemployment in Finland. This has been associated largely with reduced hiring, increased lay-offs and a fall in labor mobility. Finnish decline in hiring was mainly connected with depressed output expectations and also with restrictions placed on employers’ freedom to adapt employment. The rate of unemployment in Finland has risen despite the increased reliance upon part-time work. This means that increase flexibility of working-time arrangements compensates a small part of greater labor cost rigidity.

Labor mobility to third world markets could be another course of rise in unemployment In Finland. Another indirect possible indicator is the relationship between vacancies and unemployment rates. Mismatch indicator is ruled out if the rate of unemployment does not change and the search time needed, claimed or used for finding jobs and filling vacancies has not lengthened. Labor market mismatches are indicated when vacancies and unemployment rise simultaneously.

Look at chart 2:

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Source: Finnish Statistics / Labor Force Survey

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Source: Job vacancy in 2013, 3 quarter. Statistic

At the end of the third quarter of 2013 there were 18 300 or 7% job vacancies in private enterprises. Job vacancies were available in particular locations that were part of industry trade groups transportation and storage, accommodation and food service (5 600). Professional, scientific and technical activities, administrative and support service activities (5 100). By region, the vacancy rate was highest at Helsinki- Newlands locations (7 600).

During this period, 27% of jobs available were part-time and 29% temporary. According to employers' estimates, 51% of vacancies were hard to fill. Hard to fill vacancies were in administrative and support services, accommodation and catering industries, with offices sought, particularly in technical sales staff, cleaners, sales employees and restaurant workers.

Survey statistics in Finland has been providing information on job vacancies on a quarterly basis since 2002. Questionnaires are addressed to responsible people in the private and public sector recruitment offices. The reporting institutions respond to the survey either online form or through telephone. The data is included 5 600 different locations every year quarter. Statistics are calculated on the basis of the European Parliament and Council Regulation (No 453 /2008). The objective is to get timely and comparable information on the EU member states of vacancies and their structural characteristics.

Finnish job vacancy statistics of the sample configuration has
changed statistics for the year 2013 so that the sample sites and strata to better respond to the information users' to serve the information needs. Reforms had a significant impact on the results and could not be compared with previously published data. A new layout based on the statistics of vacancies in the information published in 2013 from the first quarter.

Finland has been faced with depressed profits and a sustained weakness of aggregate products and service demand. This is why Finnish employers as many other European employers have been forced to economize on variable or quasi-fixed inputs of production (cf. Blanchard et al., 1985). In this unusual setting, a labor market shake-out occurred in Finland at a time of emerging real wage moderation, signs of an easing of labor market rigidities and a sharply reduced rise in the price of labor relative to the price of capital. It is possible that the negative employment effects flowing from fast rising labor costs have been cushioned by a comfortable, though declining, and level of profitability (cf. Henderson, 1984). In addition to institutional and structural features governing the wage-determination procedure, aggregate real labor cost flexibility depends upon the size composition and evolution of non-wage labor costs. These costs are not only proportional to wages; they also introduce elements of fixity into the cost of labor. It can be argued that costs are probably not fully shifted back onto labor in the short or medium-run, they impart an upward bias to average real labor cost.

According to (cf. Hart, 1984), the past twenty years over-proportionate increases in non-wage labor costs have occurred in virtually all OECD countries, reflecting institutional, structural and cyclical forces. This has been largely connected with increases in statutory employers' contributions to social security schemes, especially in Finland. After the first oil price shock in particular, such tax increases were part of government efforts to stem the rising tide of social security deficits. Taking place at a time of rising inflation and rising unemployment, the cyclical sensitivity of labor costs was, at least temporarily lowered, reinforcing the adverse employment effects.

Finland labor market has been adapting to the crisis by taking measures of compensation of employees concealing a wide range of industrial, occupational and firm-specific wage contracts. They are using various aggregate real labor cost flexiblity as a tool to a variety of micro-economic influences. Some of these are changes in sectorial or enterprise labor cost differentials and corresponding productivity differentials. The dispersion of labor costs typically depends upon the characteristics of wage bargaining, the scope and structure of wage indexation mechanisms, labor mobility and institutional features relating to entry wages.

According to a survey questionnaire by the EEC Commission, countries like Greece stated that the unemployment insurance system was not generally considered as a source of labor market rigidity (cf. EEC, 1984). Countries like Finland and Denmark emphasized the positive relationship between unemployment benefits and employers' willingness to lay off employees, i.e. employers are more willing to lay off people in conditions of high, rather than of low institutional replacement ratios. High replacement ratios for the lower paid are viewed as having aggravated the unemployment problem. Contributions to social security schemes tend to reduce labor cost due to ceiling provisions statutory employers'. Privately incurred non-wage labor costs for example, payments by employers to private insurance schemes, firms' investment in human capital often constitute a higher share of labor costs for high than for low wage earners, thus tending to widen labor cost differentials (cf. Hart, 19).

The fixed-cost component is comparatively strong for skilled, high-paid and permanent employees and weak for unskilled and low-paid persons with temporary work contracts. This is why non-wage labor costs sometimes reinforce the segmentation between skilled and unskilled workers.

2. Finnish labor demand and supply

As mentioned above, surveys are common methods for assessing current labor and skills shortages in Finland. In mismatch cases, Finnish government compare employer surveys to certain vacancy rates and unemployment rates in order to derive a picture of labor mismatches. Frequent employers surveys are carried out to help understand the impact of technological change or government measures on demand for labor or skills provide a more detailed picture of the occupational and qualifications composition of employment in different sectors and also understand the impact of labor and skills shortages on productivity or growth. Surveys results are used for innovation of future labor strategies, motivation for education, training jobseekers, flexibilities like job mobility and work shifts encouragements.

Surveys help understand causes and implications of labor supply shortages by providing partial picture of the scale and causes of shortages because supply shortage could be caused by hard to fill factors. Finnish companies are usually reluctant to adjust to recruitment conditions or production standards. It is very important to note that surveys can only predict small range of the determinants of labor shortages even though they are useful as a major component of models for projecting shortages. Data on numbers of vacancies does not differentiate between frictional and structural causes of vacancies. Some professions have a high turnover than others hence; high vacancies only reflect the reallocation of jobs between those already active in the labor market.

Finland collects thousands of industrial firm samples yearly in different sectors and interview thousands of employees for enquiry into skills mismatches and the consequences for business. It uses several projections like matching of labor demand and supply which helps the government to match labor demand with labor supply and then construct an indicator for the future labor market situation for each type of education. The indicator of future expected labor market prospects for a certain education is translated into a 5-point qualitative scale ranging from very good to poor prospects. Another projector is
projected job openings which are derived by forecasting expansion of demand (reflecting movement in employment levels in a particular occupational class for a particular type of education). This is based on the employment level forecasts of economic sectors. Replacement demand arises when workers leave due to retirement or temporarily withdrawing from the labor market.

To estimate replacement demand, the model draws on cohort change rates to determine outflow by gender and by age group. In case of fixed coefficients for the occupational and training structure of employment, explanatory models are used in Finland to describe the changes in both structures over time. Then there is projected supply of job-seekers, given by the number of school leavers and the number of unemployed actively seeking work for instance after having visited training courses, or joining the job market from outside the regular education system. Forecasts of school leavers are derived from a student’s flow model indicating annual flows of students within the educational system, compiled by the Ministry of Education, Culture and Science. The Finnish government has managed to use data to estimate the effects of the flows from non-regular education on the educational makeup of the flows entering the labor market.

Unemployment data are obtained from the regional Public Employment Services, which provide information on educational background and labor where this article author has been working as a labor expert for the last 10 years

2. Summary

Finnish labor management method lacks detailed data on the level of birth cohorts. Their forecasts are more accurate concerning future job offers and seekers than results referring to the development of stocks. However, it provides useful information for people who are involved in decision making on educational investments due to its low level of aggregation use. Finland is a small country of about 5 million inhabitants therefore, corresponding forecasts helps in reducing skills shortages. Forecasts referring to surpluses or shortages on the national level have less potential to exercise a positive impact on labor market developments. This is due to the fact that labor market inflows and outflows might strongly differ between regions within a country.

As long as interregional mobility is relatively low, regional mismatches will rise on large scales, even where adjustments in education have been successful. Finnish labor management model provides a comparatively solid theoretical framework. The projection methods are improved regularly by evaluating forecasting results. These models are linked with other Finnish labor forecast models. Unlike other methods, Finnish labor management model does not attempt to match total future labor demand with total future supply. Its calculations are based on job openings and inflows on the labor market. This approach allows more sophisticated modeling of labor market issues than models that just refer to development of overall occupational demand and supply.

It’s clear that there is no European labor market whose skill composition of labor supply and demand as well as their changes is highly differentiated cross-country results to all sorts of equilibrium. Educational expansion of the Finnish economically active population will keep on changing and costing due to cultural, societal and political benefits of a better educated population. It is hard to predict Finnish labor demands. Theories and forecasts suggest that high profile jobs demand will keep on rising as well as elementary occupations that can be neither off-shore nor replaced by technology because they require interaction and physical presence. Time will tell. All we, the researchers can do is predict and prepare for endless changes.

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