



**Back to Work**

# **FINLAND**

**IMPROVING THE RE-EMPLOYMENT  
PROSPECTS OF DISPLACED WORKERS**





# Back to Work: Finland

IMPROVING THE RE-EMPLOYMENT PROSPECTS  
OF DISPLACED WORKERS

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## *Foreword*

OECD labour markets are dynamic. Each year, around 20% of jobs in a typical OECD country are created or destroyed, and around one third of all workers are hired or separate from their employer. These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry. This process is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers changing jobs, particularly workers who voluntarily quit one job in order to move to another. However, high job turnover is also a source of insecurity for workers, especially those who are displaced from their jobs because their employer downsizes its workforce or goes out of business altogether. A common challenge facing OECD governments is thus to nurture labour market dynamism while keeping the adjustment costs that are borne by displaced workers as low as possible.

To address this issue the OECD Employment, Labour and Social Affairs Committee is carrying out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. Nine countries participate in this review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

This report on Finland was prepared by Ann Vourc'h from OECD's Employment, Labour and Social Affairs Directorate and Merja Kauhanen from the Labour Institute for Economic Research in Finland, under guidance and supervision of Christopher Prinz. Statistical assistance was provided by Dana Blumin, Sylvie Cimper and Agnès Puymoyen and editorial assistance by Gabriela Bejan and Jade Baker. Special thanks go to Kristiina Huttunen from the University of Helsinki for providing all FLEED data tabulations. Comments were provided by Mark Keese and Stefano Scarpetta. The report benefited greatly from discussions with Finnish experts, officials, employer federations, trade unions, academics and businesses during a mission of the OECD team to Finland in November 2015, and from comments to a draft version provided by several Finnish ministries and stakeholders.



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## *Acronyms and abbreviations*

<b>ALMP</b>	Active labour market programme
<b>EGF</b>	European Globalisation Fund
<b>ELY Centres</b>	Centres for Economic Development, Transport and the Environment
<b>EPL</b>	Employment protection legislation
<b>EU</b>	European Union
<b>FLEED</b>	Finnish Longitudinal Employer-Employee Data
<b>FNBE</b>	Finnish National Board of Education
<b>GDP</b>	Gross domestic product
<b>GFC</b>	Global financial crisis
<b>KELA</b>	Finnish Social Insurance Authority
<b>LMT</b>	Labour Market Training
<b>NRR</b>	Net replacement rate
<b>PES</b>	Public employment service
<b>RPL</b>	Recognition of Prior Learning
<b>SMEs</b>	Small- and medium- sized enterprises
<b>STW</b>	Short-time work
<b>TE offices</b>	Local public employment service offices now called Employment and Economic Development Offices
<b>UI</b>	Unemployment Insurance
<b>VATT</b>	Government Institute for Economic Research



## Executive summary

Workers who involuntarily lose their jobs as firms close or downsize in response to fluctuations in demand and production, face substantial economic and non-economic costs. Around 5.5% of Finnish workers with at least one year of tenure are displaced every year as a consequence of mass dismissal or firm closure, a share that crept up to more than 7% during the global financial crisis. Overall, Finnish displaced workers do relatively well in terms of labour market outcomes after displacement. In normal times, about five in six of them find a new job within one year but for those who do not find a job quickly, the impact of job displacement is very persistent and many of them never find a new job. Older displaced workers and those with limited education face the poorest post-displacement prospects.

Overall, Finland has strong and balanced policies in place to deal with economic restructuring and to assist people losing their job for economic reasons. First, labour law and the temporary layoff scheme provide considerable flexibility for employers at very low cost. Second, a process called *Change security* aims to inform both employers and workers quickly about their rights and obligations, though de facto this is applied only for mass dismissal. Third, the unemployment benefit system provides adequate income support to most workers during periods of joblessness. Finally, the public employment service provides services to displaced workers needing help to find a new job.

Notwithstanding this favourable policy set up, however, challenges remain because not every worker in Finland benefits from the same level of support. Older displaced workers, blue-collar workers and those with low skills struggle to find a new job again, and long-term unemployed people profit little from the available employment support.

The OECD therefore recommends that policy makers in Finland:

- Ensure that more people are reached by the Change security process, including people working in smaller businesses and for subcontractors, and that more can access early intervention such as Change training.
- Make employers bear more of the costs of the temporary layoff scheme to avoid possible overuse of the scheme, which may make transitions to new jobs more difficult for workers ultimately dismissed.
- Involve the social partners more in the process of job-to-job transitions before dismissal, including through a stronger focus on job-search support in packages negotiated between employers and workers' representatives.
- Reorient public employment service spending; in particular, devote a higher share of total spending to manage jobseekers through face-to-face counselling and monitor job search.
- Raise the effectiveness of training through outcome-based funding of services, systematic recognition of prior on-the-job skills for identifying the right training, and better information for the training sector.
- Strengthen the activation regime, including by promoting the early registration of displaced workers with the employment service, and experiment with ways to use part of the current passive spending in an employment-promoting way.

## Assessment and recommendations

Finland is a small open economy relying on its strong human capital and on its close integration in the European and global economy. In this context, successful continuous restructuring and quick adaptation to global developments is vital for its prosperity. Finland is facing a difficult economic situation, with three years of recession in 2012-14 and only a slow recovery since, driven by a number of adverse shocks and structural factors in the aftermath of the global financial crisis: a significant contraction of the electronics sector, a secular decline of the traditionally very strong paper industry, and the sharp drop in exports to Russia (still a main trading partner) due to the imposed sanctions regime. At 9.4%, the unemployment rate in Finland was higher in 2015 than in the peak crisis years 2009 and 2010. The long-term unemployment rate is also at a new high of 2.7%.

The Finnish labour market model has shown great adaptability over recent years, combining a rather flexible labour market that allows fast labour reallocation towards productive sectors and prospering firms with the provision of services for those workers needing help. This model works well for the majority of the workforce though not equally well for everyone, especially older displaced workers and the long-term unemployed. This report analyses the situation in Finland and examines how the benefits of economic growth and restructuring could be better shared among workers.

### Job displacement is frequent but most workers find a new job quickly

Job displacement is high in Finland in international comparison. On average over the past 15 years, 5.5% of all employees with job tenure of at least one year were affected by mass dismissal or firm closure each year (with a peak at 7.3% in the crisis year 2009). This rate is comparable to the United Kingdom but roughly twice as high as in Denmark and Sweden, for example. Young workers and those with tenure of less than five years are affected most. More than in other OECD countries job displacement affects different sectors differently. The strongly export-driven electronics sector continues to experience very large-scale layoffs. Restructuring in the paper industry also generated significant layoffs although overall the

manufacturing sector was affected less by displacement than the construction and transport sectors. Mirroring regional differences in the economic structure, displacement rates in Finland also vary geographically.

The chances for a displaced worker in Finland to find a new job quickly are good: according to population survey data for the period 2000-12, almost five in six displaced workers find a new job within one year. Among OECD countries for which comparable data are available, only Sweden has re-employment rates that are as high, with considerably lower rates in most other countries that are closer to around 50% (OECD, 2012). The scarce information available for Finland suggests that the quality of the new jobs found by displaced workers is not significantly worse than that of their old jobs. However, these good aggregate labour market outcomes after job displacement in Finland hide some differences across displaced workers. As in other OECD countries, lower rates of re-employment are found for workers over age 55 and those under age 25, those with a low level of education, and more generally blue-collar workers, especially in the manufacturing and construction sectors. Earnings losses are quite limited in Finland in international comparison for the average displaced worker but larger and more persistent for older and low-skilled workers. Moreover, those who did not find a job within one year face a high risk of remaining jobless for a long time if not forever, especially if over the age of 55. This is also because new jobs are not always created in the regions where jobs were lost, thus contributing to the recent general increase in the average duration of unemployment in Finland.

### **Linking economic forecasts with policy interventions for displaced workers**

Forecasting future skill needs in order to improve labour supply responses to economic change is widespread in Finland. There are a number of tools and processes in place, at both the national and regional level, to forecast economic developments and anticipate qualification and skill gaps. These tools could be better used to manage economic restructuring and job displacement through assessing skill needs in order to help key stakeholders – employers, workers, employment services and the government – take the required actions. In addition, anticipation of mass layoff could be further developed to make the best possible use of special funding available to respond to such situations.



## Labour law makes it easy to dismiss workers for economic reasons

Labour law does not seem to constrain restructuring in Finland as labour turnover is quite high. The share of long-term unemployment is also lower than in many other OECD countries although it is high currently for Finnish standards. In a comparative perspective, employment protection is relatively strict for individual dismissal but relatively lenient for collective dismissal. There are a number of procedural obligations for employers who have to dismiss workers but employers can choose who to dismiss, with due regard to anti-discrimination rules, and there is no statutory severance pay. Notice periods are quite long for long-tenured workers but short for workers with less than five years of job tenure.

Packages providing substantial payments to workers are often agreed between employers and worker representatives, which undermine labour regulations and can delay employment support. A priority re-employment rule, according to which displaced workers are entitled to be re-hired in the nine months following displacement in cases where the company is hiring for a job similar to that done by the displaced worker, is typically circumvented through a package. These packages can be generous and compensate workers for the absence of severance payments. In return, employees quit their job and leave their workplace voluntarily – which is acceptable insofar as unemployment insurance eligibility in Finland is not linked to the reason for job loss. However, access to unemployment benefits is delayed by the number of months of pay the package represents. This is problematic in terms of access to employment services, especially for workers in smaller enterprises which are unable to offer any outplacement services. Establishing a closer link between access to unemployment benefits and early registration with the employment service, as done in many other OECD countries, could alleviate this problem.

A recent reform proposal seeks to reduce the period during which displaced workers have re-employment priority to 4-6 months, depending on job tenure. This will further reduce the costs of dismissal for workers and potentially bring displaced workers in touch with public employment services earlier if it affects the size of the agreed packages proportionally; but this might still be too late for those who would benefit from early employment support.

## The temporary layoff scheme is (too) frequently used

Employers can also choose to lay-off workers temporarily, even without employee consent, partly or fully and possibly even without a specified time limit. Workers laid-off temporarily receive regular unemployment benefits

during this period. The temporary layoff scheme is very generous for employers who bear no cost other than the process and image costs and have no verifiable conditionality attached to it. Use of that scheme is frequent, not surprisingly, and surged during the recent global financial crisis (when as many as 4% of the workforce was laid-off temporarily) thereby saving many jobs that would have been lost otherwise.

The temporary layoff scheme plays an important role in smoothing the effects of the business cycle for firms in difficulties and thus avoiding unnecessary layoffs, but the lack of direct costs for the firm is likely to result in overuse of the scheme. The scheme also plays a role in subsidising sectors with seasonal demand, as reflected in the seasonal spikes in the use of the scheme, which have even tended to increase in recent years. Evidence is very limited on whether workers laid off temporarily return to their initial job or become unemployed. To eliminate potential overuse, employers should be requested, as in many OECD countries, to i) provide proof for the reduced need of their workers' working time and ii) contribute to the costs of the scheme. Eligibility criteria and cost-sharing conditions could be loosened temporarily, if necessary, in case of large cyclical shocks, as is done in other countries.

### **Early intervention to assist displaced workers is under-resourced**

Back in 2005, and further expanded a few years later, Finland introduced what is called Change security and Change training, a potentially useful programme or process that is used too little in practice. Change security is a process aimed at providing early information on workers' entitlements after their dismissal (or once they have voluntarily left the enterprise in case of a negotiated package) and helping employers to develop their action plan. It is operated by Change security specialists in the local offices of the public employment service, the employment and economic development offices. Change training can be offered to people covered by Change security. Participation in Change security and Change training is voluntary.

Change security has the right intention and if set in motion defines rights and obligations for employers, employees and local employment offices; including notification, information exchange and an action plan. But Change security currently does not provide much effective training or employment services before the worker registers as a jobseeker (which is typically after the depletion of any negotiated package); in particular, workers cannot benefit from individual interviews or counselling before they register. Shrinking resources of the local employment offices and the decrease in the number of employment counsellors (and a corresponding

increase in the caseload per counsellor) mean that Change security today is even less effective than it used to be a few years ago. Change training is also not used much or not fast and flexibly enough, not least because of significant red tape associated with its set-up.

Overall, there is much less involvement of the social partners in Finland in the restructuring process than in other Nordic countries, especially Sweden. There is considerable room for the social partners to engage more effectively in an early phase to facilitate job-to-job transitions, to supplement and balance the strong focus in Finland on the provision of passive income support. The recently agreed obligation for employers in firms with more than 30 employees to provide re-employment training to displaced workers will improve the situation for these workers provided this training is carefully designed to meet the workers' needs. However, the need for more intervention to facilitate job-to-job transitions will remain for smaller-sized enterprises and for sub-contracting firms which tend to be poorly covered by the Change security programme.

While funding for Change security seems insufficient, special national funds are available to help regions or sectors under pressure. These so-called *Abrupt structural change* funds can provide significant support to regions affected by unexpected mass layoffs. Funding is mostly in the form of investment support to promote job creation, which seems to be the preferred route of the current government: investing in businesses rather than in displaced workers. So far, some 28 regions and two economic sectors have benefited from such special funds. But like other schemes and approaches in Finland, the lack of rigorous evaluation studies makes it difficult to assess the effectiveness of these abrupt structural change funds for displaced workers.

### **A three-tier unemployment benefit system protects workers effectively**

When quick job-to-job transitions are not feasible or unsuccessful, income security becomes a key issue for displaced workers, as soon as negotiated package money has been depleted. Finland has a comprehensive unemployment benefit system in place that is quite effective in terms of both benefit coverage and benefit adequacy. The system has three complementary components: 1) an earnings-related unemployment benefit for members of an unemployment insurance fund (46% of all benefit recipients in 2014); 2) a flat-rate basic benefit for those who are not members of such a fund (10% of all benefit recipients in 2014); and 3) a means-tested labour market subsidy for those not fulfilling eligibility criteria or having exhausted their unemployment benefit entitlement (44% of all benefit recipients in 2014).

Little is known about the treatment of displaced workers in the standard income support system and mainstream employment services, because displaced workers currently cannot be tracked or identified. Overall, about three in four unemployed people in Finland receive one of the three unemployment benefit payments, a high share in international comparison. There are three main reasons. First, compared across OECD countries, eligibility conditions for receiving the earnings-related or the flat-rate unemployment benefit are relatively lenient, especially in regard to availability requirements and suitable work criteria. Second, the means-tested labour market subsidy can be received without any time limit. And third, people qualify for unemployment benefit irrespective of the reason for their job loss. Survey data suggest that among displaced workers as defined in this report (i.e. people with tenure of at least one year dismissed for economic reasons), the unemployment benefit coverage rate is also around 75%.

As long as people receive the first-tier earnings-related benefit, benefit net replacement rates for workers with a full, uninterrupted working career are typically around 70% of past earnings and thus in the top-third of all OECD countries. Also averaged over a five-year period the net replacement rate is typically still around 50% (assuming that the unemployed qualifies for the Labour Market Subsidy after exhaustion of first-tier payments) which moves Finland into the top-fifth of all OECD countries. This is in part because the period during which earnings-related unemployment benefit can be received is relatively long in international comparison (normally 500 work days or 400 days for people with a work history of less than three years) even if not long in comparison with other Nordic countries. There is also a further reform to come which will shorten the maximum duration of payment.

### **Work must always pay especially also for long-term benefit recipients**

The biggest challenge for an unemployment benefit system is to provide income security without jeopardising work incentives. Poverty estimates for Finland suggest that, despite high benefit coverage, unemployed people are three times more likely to face a low-income risk than wage and salary earners. This suggests that there is limited room to lower benefit levels. Good work incentives for beneficiaries are therefore best achieved through a tight activation regime with strict job-search and programme participation requirements and strong conditionality monitoring by the benefit authority. In Finland, availability conditions, job-search requirements and job-search monitoring are quite lenient, compared with other OECD countries. For displaced workers the situation is not different, except that the eventual receipt of a negotiated package will typically delay the time when they register with the local employment office and therefore also delay the time until conditionality bites.

Long-term unemployed workers in Finland struggle to return to work and in this regard the recent increase in the average duration of unemployment is very worrying. Many of those long-term unemployed are displaced workers. Recent and ongoing unemployment benefit reform has addressed and will address these issues partly, by reducing the benefit payment duration and tightening geographical and occupational eligibility criteria. But more can be done. Ways should be explored to improve work incentives for longer-term unemployed by using part of their benefit entitlement in an active way. Finland could test alternative ways of doing this: for instance, by paying a bonus to unemployed workers who do not use up their benefit entitlement, as is done successfully in Japan; or by reducing unemployment benefit over time and using the reduction as a temporary wage subsidy.

### **Older displaced workers are channelled into unemployment and inactivity**

There is one group of displaced workers, however, which faces a unique situation: older displaced workers. Unemployed people are entitled to extended unemployment benefits until the age of 65 if they turn 60 before the end of their 500-day unemployment benefit entitlement (provided they have worked at least five years in the past 20 years). The aim of this rule is to provide secure income to people with limited employment opportunities. People displaced at age 58 can therefore receive unemployment benefit for seven years (also referred to as unemployment tunnel). Until some years ago, the unemployment tunnel entry age was 53 years.

Finnish research has consistently shown that the unemployment tunnel is the main cause for the relatively low employment rate of older workers and the lower re-employment rate for older displaced workers. Each time the age threshold was raised in the past, the participation rate has increased accordingly. With recent pension reform in Finland which will gradually increase the legal retirement age, the unemployment tunnel will become longer again. This is likely to deteriorate further the labour market chances of older displaced workers. The social partners have agreed to look into this issue again in 2019 but action should be taken earlier. One way would be to shorten and eventually remove the special entitlement for older unemployed; another way would be to transfer part of the cost of the unemployment tunnel onto employers, echoing the experience-rating feature used in the Finnish disability benefit system.

## Active labour market programme spending is comparatively high

Many OECD countries use strong activation policies and active labour market programmes to offset the negative impact of unemployment benefits on work incentives. Finland spends considerable public funds on active labour market programmes aimed at helping people who have lost their jobs improve their employability and return to the labour market. At roughly 1% of GDP, active labour market programmes spending in Finland in 2014 was the third-highest in the OECD, only topped by Denmark and Sweden. Many of the programmes are designed for disadvantaged jobseekers and, overall, half of total spending is for training programmes of various types, including labour market training and education subsidies for jobseekers.

Surprisingly little is known in Finland about the effectiveness of training and other labour market programmes, and virtually nothing is known about their effectiveness for displaced workers in particular as they are not identified as a group of interest. Available data suggest that access to services and types of services used differ considerably by population group. First, the share of jobseekers in labour market programmes (in Finland referred to as the *activation rate*) is much lower among older unemployed people (activation rate of 15% compared with an overall average of 25%) and lowest for those unemployed for more than a year (activation rate of less than 10%). Secondly, older and low-skilled jobseekers are less often receiving or choosing training and more often participating in programmes with relatively poor employment outcomes. This suggests that labour market policy is not very effective, or least effective, for those needing help most.

## But public employment service operations are underfunded

While spending on active labour market programmes is high in Finland, spending on public employment services operations – which includes the preparation of an employment plan, the monitoring of job-search and participation requirements and the ongoing counselling of jobseekers – is much lower than in many other OECD countries and well below that of Denmark and Sweden, for example. This probably explains part of the disappointing outcome for the long-term unemployed and other disadvantaged jobseekers. Finland is spending a lot on programmes but much less on managing the caseload and counselling jobseekers which, as various meta-studies have suggested, may in fact be the most cost-effective measures to help the unemployed find a new job.

In addition, public employment service resources have fallen continuously in the past decade. The overall activation rate has decreased since 2011, from 30% to 25%, and the number of employment counsellors fallen by 50% since 2005. Consequently their caseload has almost doubled from 80 to around 160 customers per counsellor. This is much too high a caseload to meet every client in need regularly. The consequence of this development is that employment plans would typically be done over the phone rather than face-to-face and any follow-up or monitoring will be miniscule. In line with spending cuts, the content of active labour market programmes has also changed, with a shift towards lighter programmes even though longer-term measures were found more effective.

### Raising the effectiveness of labour market policy

Finland should rebalance its spending and shift resources away from possibly ineffective programmes and towards: i) the early identification of displaced workers and other unemployed at risk of long-term unemployment (applying the new service model rigorously); ii) greater resources for the public employment service to reduce the caseload per public employment service counsellor and strengthen regular face-to-face contact with jobseekers in need of support; and iii) better governance to ensure uniform action across the country. In exchange, spending on programmes and training should be streamlined which in turn requires much better knowledge about programme effectiveness. Currently there is too much focus by the employment service on the activation rate as a main result and too little focus on actual employment outcomes. Paying service providers for results rather than for providing service would reduce service costs and free resources needed to manage the unemployment caseload effectively. In addition, to allow for future rigorous evaluation of the programmes, a small part of the funding should be systematically allocated to evaluation purposes, as is done in Germany.

Major institutional reform upcoming in 2019 when counties will become fully responsible for employment matters and the procurement of services will not change the general problem the system is facing: too little operational resources coupled with a large menu of active labour market programmes many of which are expensive but provide only weak employment outcomes. More needs to be done to strengthen the management of the system and lower the caseload of employment counsellors while at the same time improving the effectiveness of services. The planned institutional overhaul can be a step in the right direction.

Finally, displaced workers (though other unemployed jobseekers as well) could potentially benefit greatly from raising the impact of the training system. Training is widespread but there is some randomness in who is getting what training and when. In this context, the recognition of skills acquired on the job is critical; these skills must be identified systematically and that information used by the public employment service in the process of helping displaced workers identify the right training.

### **Key policy recommendations**

#### **Facilitate restructuring and preventing job displacement**

- Make better use of the various different skills forecasting tools for displaced workers and help key stakeholders – employers, workers, employment services and the government – take the required actions.
- Encourage the social partners to broaden the contents of packages negotiated especially in case of mass dismissals and plant closures. Packages often have little focus on job-search support, and too much focus on the negotiated payment.
- Better control the use of the temporary layoff scheme as a tool to manage genuine economic difficulties faced by firms. Make employers bear part of the cost of the scheme and request them to provide proof for the reduced need of labour inputs in the company. The strengthened criteria can be loosened temporarily in case of large cyclical shocks, if necessary.

#### **Ensure that more people are reached through early intervention**

- Increase resources for the Change security process in order to: i) be able to reach all businesses, including small businesses and smaller subcontractors; ii) provide more real help early on not just information; and iii) allow individual counselling before dismissal when needed.
- Make efforts to raise the take-up of Change training at an early stage for those at risk of long-term joblessness and evaluate rigorously and regularly the impact of both the Change security process and Change training. Reduce the red tape associated with organising such training.
- Increase the involvement of the social partners in handling announced displacements so as to improve the number of immediate job-to-job transitions prior to dismissal, as is done in other Nordic countries, especially Sweden. This would be especially important in the case of disadvantaged workers in declining or less dynamic sectors.



### **Key policy recommendations (cont.)**

#### **Shift employment service resources and strengthen operations and governance**

- Invest a larger share of the available resources into lowering the caseload for caseworkers and enabling employment services to provide more effective support to jobseekers. Ensure more frequent and earlier face-to-face contact with jobseekers to develop individual employment plans, monitor progress and adjust the support provided over time as necessary.
- Implement the new employment service model rigorously at the local-office level and assure that caseworkers use the profiling tool available to estimate the risk of long-term unemployment. Provide services and training earlier to displaced workers at risk of long-term unemployment and inactivity.
- Assure better employment service governance and guidance, with local targets, and more uniformity of procedures at the local level. Improve the incentives for local offices to achieve sustainable labour market outcomes, by measuring and publishing local employment outcomes, as done in Denmark.
- Invest in rigorous, systematic evaluation of training programmes and employment interventions, including their effectiveness for displaced workers.

#### **Raise the impact of the training system**

- Provide more steering to the education sector on what training is needed for the fast-changing labour market and on the direction of vocational education through funding streams (e.g. gradually shift resources towards areas in high demand to assure that training providers respond more quickly to changing needs).
- Switch towards outcome-based funding of services provided by public and private labour market training providers, i.e. paying for tangible and sustained labour market outcomes of the services not just the provision of services.
- Consider introducing a system of recognition of on-the-job learning which is used systematically by the public employment service in the process of helping displaced workers identify the right training.

#### **Make activation the main target of labour market policy**

- Make it mandatory for people to register with the employment service within a short period of time after job loss, in order to secure their unemployment benefit entitlement and quick access to services, irrespective of whether or not they receive a negotiated package.
- Tighten job-search requirements for the unemployed receiving benefits and increase the intensity with which job-search efforts are being monitored by the employment service and failure to satisfy obligations is sanctioned.

### **Key policy recommendations** *(cont.)*

- Remove benefit top-ups for people participating in an activation measure, which is a wrong signal as such participation should be the norm.
- Ensure that jobseekers with greater barriers especially older and low-skilled displaced workers are activated with a specific focus on measures to make them employable for jobs available in the labour market.

#### **Gradually remove special unemployment benefit rules**

- Gradually phase out the unemployment tunnel which allows older workers to retire through the unemployment system when they are 58 years old as this reduces their labour market opportunities dramatically (and with forthcoming pension reform the length of the tunnel will go up again).
- Alternatively, consider shifting large parts of the cost of the unemployment tunnel onto employers (largely irrespective of the size of the company), echoing the experience-rating feature used in the disability benefit system.

#### **Consider ways of using passive spending in an active way**

- Experiment with the idea of using some of the passive unemployment benefit payment as an employment incentive to return to work faster, possibly linked to holding a new job for a certain minimum period:
  - Reduce the unemployment benefit payment level after six months by, say, 10% or 20% and use (part of) the reduction as a temporary wage subsidy.
  - Alternatively, pay a bonus to the returning worker calculated as a share (for example, 50%) of the unused benefit entitlement, as is done in Japan.

## Chapter 1

### Job displacement in Finland and its consequences

*This chapter examines the prevalence and consequences of job displacement in Finland. Finland's flexible labour market is reflected in a higher risk of job loss for economic reasons than in most other OECD countries for which comparable data is available but also high and rapid re-employment. Scarce information on job quality show no large fall on average, and professional downgrading appears relatively limited. However, some groups face more difficulties in getting back to employment, notably older and low-educated displaced workers. Older blue-collar workers in particular face increased difficulty since the crisis, with higher probabilities of being unemployed and for longer periods, a trend which may even deepen given the continuing poor labour market performance in Finland. Workers in regions with traditional specialisation in sectors such as the forestry and the maritime industry which have undergone significant restructuring also face more difficulties.*

This chapter analyses the incidence of job displacement in Finland and the social and labour market consequences for affected workers. Recent cyclical and structural developments in the Finnish labour market provide some context for understanding why workers are displaced and what general labour market situation they are confronted with. The chapter documents the number of stable workers who have been displaced due to economic reasons each year between 2000 and 2012 and describes the characteristics of these workers and their employers. Post-displacement results are analysed, including the re-employment prospects of displaced workers and their earnings. The last section focuses on changes in the skills used on the job.

## The Finnish labour market context

### *Labour market performance has not recovered since the crisis*

Compared with other OECD countries, The Finnish labour market situation has continued to worsen after the GFC in 2008-09, reflecting the poor growth performance. After a short recovery after the GFC initially, Finland fell back into recession in 2012 and until 2014, and GDP growth just bottomed out in 2015.

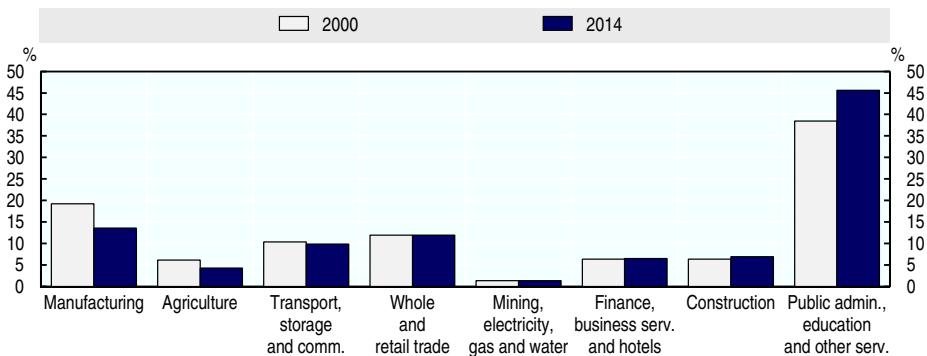
This low growth trajectory is driven by a number of adverse shocks and structural factors. The pressures of globalisation are pronounced in Finland because it is a small, open economy with high wages and benefits (Böckerman and Maliranta, 2013). Recently considerable changes have occurred in Finland's trade patterns, with the share of non-OECD countries in manufacturing trade increasing significantly. Outsourcing in the electronics industry and telecom equipment, which was spurring growth until 2007, has been sizeable, and the sector contracted significantly when Nokia's handset business failed to rise the competitive challenge of smart phones and collapsed. The Finnish paper industry, a historical pillar of the economy, suffered from a secular decline in global demand and competition from emerging markets. Finland's export composition also makes it particularly vulnerable to global business cycle fluctuations: a large share of Finland's export are raw materials and intermediate goods used in manufacturing and investment goods (metal and forest industry products), and despite the broad uptick in growth across the Eurozone, demand for such goods has not yet picked up. Finally, from 2014 onwards, exports to Russia – a major trading partner – almost halved due to the Russian recession and the imposed sanction regime.

The changes in employment have been spread unevenly across sectors since 2008 (Figure 1.1). Restructuring in the paper industry, which has now come to a halt, generated significant layoffs, and very large scale layoffs

in the electronics and information technology sector are still going on. The sectors in which employment has declined most are largely export-driven and connected with manufacturing. By contrast, in the past five years, a large number of new jobs were created in social and health care services, as well as in the education sector, primarily in the public sector.

Figure 1.1. **Jobs in Finland were destroyed in manufacturing and created in education, social and health care services**

Share of sectors in total employment, 2000 and 2014



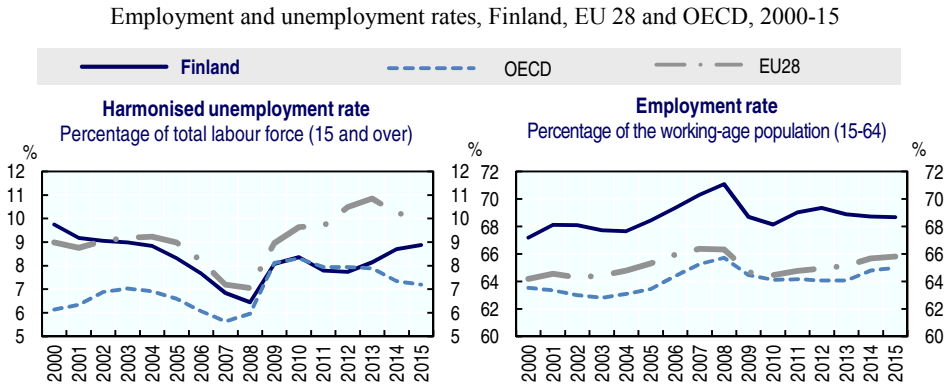
Note: Economic activities classification based on Revision 4 of the International Standard Industrial Classification (ISIC). Sectors are ranked by ascending change over 2000-14.

Source: OECD *Employment by activities and status* (ALFS) dataset, a subset of the *OECD Annual Labour Force Statistics (ALFS) Database*, [http://stats.oecd.org/Index.aspx?DataSetCode=ALFS\\_EMP](http://stats.oecd.org/Index.aspx?DataSetCode=ALFS_EMP).

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Overall, labour market dynamics remain sluggish. After some rebound in 2011 and 2012, net employment change turned back to negative, a pattern also reflected in the employment rate, which just stabilised in 2015 (Figure 1.2). Unlike in most other OECD countries, unemployment has been increasing since 2012, reaching almost 9% in 2015, still 1 percentage point lower than the EU average, but 1.7 percentage point above the OECD average. Since 2011, labour flows between employment and unemployment have slowed – they are 30% lower than before the financial crisis – and unemployment duration has continuously increased. Fewer workers become unemployed but it has become more difficult for the unemployed to find a new job (Vanhala and Viren, 2015). The resulting loss of labour market contacts and skill erosion risks turning cyclical unemployment into structural one.

Figure 1.2. **Employment and unemployment rates in Finland have not recovered their pre-crisis level**



Source: OECD Short-term Labour Market Statistics (<http://stats.oecd.org/index.aspx?queryid=36324>).

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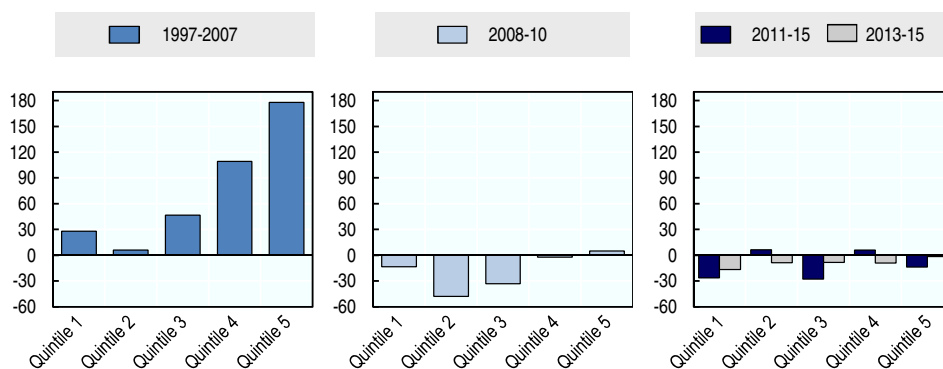
### *Some population groups suffer more than others*

As in other OECD countries, some groups are more affected by the poor labour market situation than others. This is notably the case of older workers who make an important and growing group in the rapidly ageing Finnish society. Older workers face an unemployment rate lower than the average, but much less so than in most other OECD countries. Besides, they suffer from much longer unemployment duration: at about 93 weeks in 2014, it was more than double that of prime age workers (40 weeks), the largest gap in OECD countries for which comparable data is available.<sup>1</sup>

Workers with low education level are also more likely to experience unemployment than those with higher education. Looking at the evolution of employment for specific combination of occupations and sectors ranked by their median hourly wage into wage quintiles (Figure 1.3), it appears that Finland has tended to upgrade its employment structure since 1997, i.e. employment shifted upwards (Eurofound, 2009, 2014 and 2016). This trend is quite clear until 2007. In 2008-10, employment changes came closer to what is often described as polarisation, with mid-wage employment decreasing most, consistent with the fact that the manufacturing sector was affected most during the crisis. But the more recent period, especially after 2013, shows some return to upgrading, though still in a context of negative employment creation. Displaced workers in Finland belonging to the lowest wage quintiles are thus more likely to face re-employment difficulties.

Figure 1.3. **Employment changes by wage quintiles point to upgrading but in very weak labour market context since the crisis**

Net changes in salaried employment by wage quintiles, thousands



Note: The 1997-2007 data are based on isco-88 and NACE Rev 1.1 classifications; the 2008-10 and 2011-15 data are based on isco-88 and NACE Rev 2.0 classifications.

Source: European Foundation for the Improvement of Living and Working Conditions.

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## Displaced workers: incidence and characteristics

### *Defining and measuring job displacement*

The term displaced worker in this report refers to workers involuntarily separated from their job due to economic or technical reasons or as a result of structural change. Following the methodology used in OECD (2013a and 2013b), the population group of interest consists of workers aged 20-64 with at least one year of tenure, who are employed in firms with ten or more employees. Employers, the self-employed and unpaid family workers are excluded from the analysis, as are workers in the public administration, defence, community, social and personal service activities and extra territorial organisations. Short-tenure and young workers are excluded to allow the analysis to focus more sharply on workers with some degree of job stability, by better differentiating between displaced workers and workers facing chronic instability in the labour market.

The report makes extensive use of the *Finnish Longitudinal Employer-Employee Data (FLEED)* – a linked employer-employee dataset created by Statistics Finland for research use, which covers all Finnish private sector firms from 1988 to 2012. FLEED does not document reasons for job separations, hence, the following definition of job displacement is used: workers are classified as displaced if they experienced a separation between year  $t-1$  and year  $t$  from a plant that has undergone any of the following two events:

- *Mass dismissal* – a firm that has experienced an absolute reduction in employment of five employees or more and a relative reduction in employment of 30% or more between year t-1 and year t;
- *Firm closure* – a firm that has terminated to operate between year t-1 and year t (i.e. the identity number of the firm appears in the data base in year t-1 but no longer in year t). To avoid an overestimation of displacement due to changes in firm identification numbers, exiting firms for which more than 70% of the workforce is working in another firm in year t are not considered as real closures.

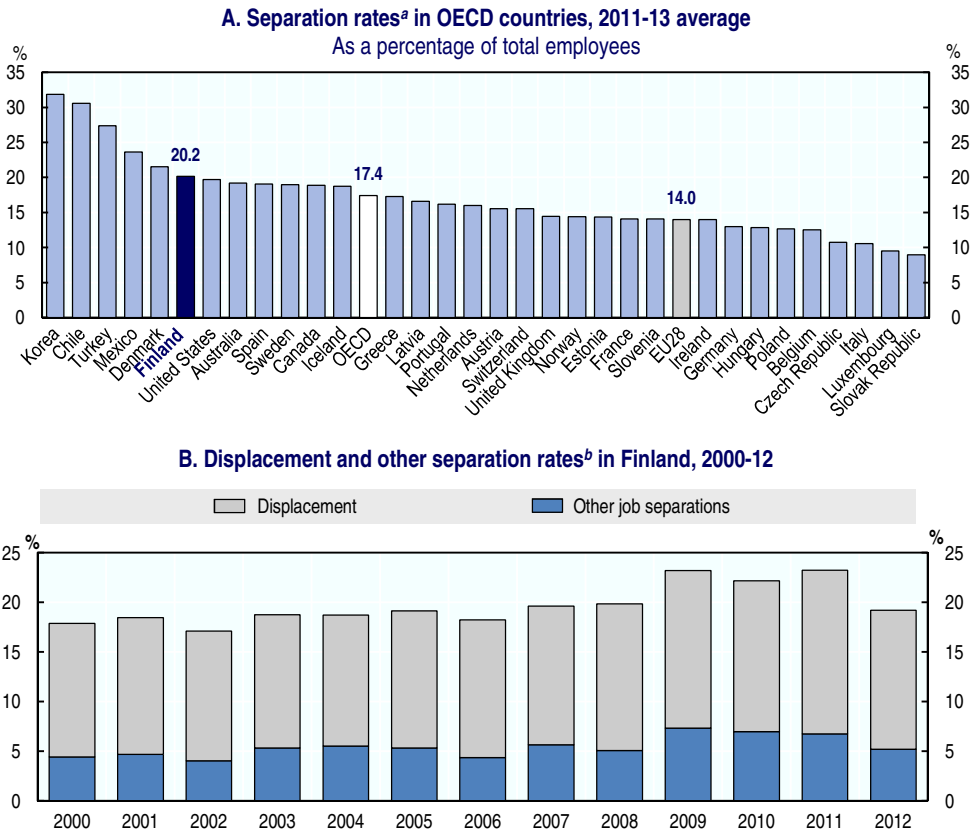
### ***The incidence of job displacement is high in Finland***

Labour turnover is relatively high in Finland compared with most OECD countries, and even higher compared with EU countries, pointing to a rather dynamic labour market. After a decline in the recession years, the separation rate, calculated as the difference between the hiring rate and net employment change, reached 20.2% in the years 2011-13 (Figure 1.4 Panel A).<sup>2</sup> Among workers with stable attachment to the labour market, i.e. workers with a tenure of one year or more, almost 20% lost their job every year over the period 2000-12, among which about one out of five were displaced as defined in this report (i.e. workers who lost their job through mass dismissal or firm closure), the other four out of five being affected by individual or small-scale dismissal or people voluntarily leaving their job (Figure 1.4 Panel B).

The annual incidence of displacement appears to be relatively high in Finland compared with other OECD countries. Figure 1.5 (Panel A) shows the risk of displacement in 13 OECD countries for the period 2003-08 and 2009-10 based on either firm level data (*firm identified displacement*) or labour force surveys (*self-identified displacement*). Finland shows the highest displacement rate on average over the whole period. Displacement incidence was already high before 2009 and surged during the crisis.

Overall, between 2000 and 2012, 5.4% of the employees with a tenure of one year or more were displaced each year, with a minimum of 4% in 2002 and a maximum of 7.3 in 2009 (Figure 1.5, Panel B). Displacement through mass dismissals is much more frequent than displacement due to firm closure, and appears to be much more counter-cyclical. On average, the displacement rate in Finland is 3 percentage points higher than in Sweden and about double that of Denmark. Another specificity of Finland is that the displacement rate did not recede much after the 2.2 percentage point surge in 2009, staying at very high levels in 2010 and 2011 and some reduction in 2012, in line with the subdued labour market performance described above.



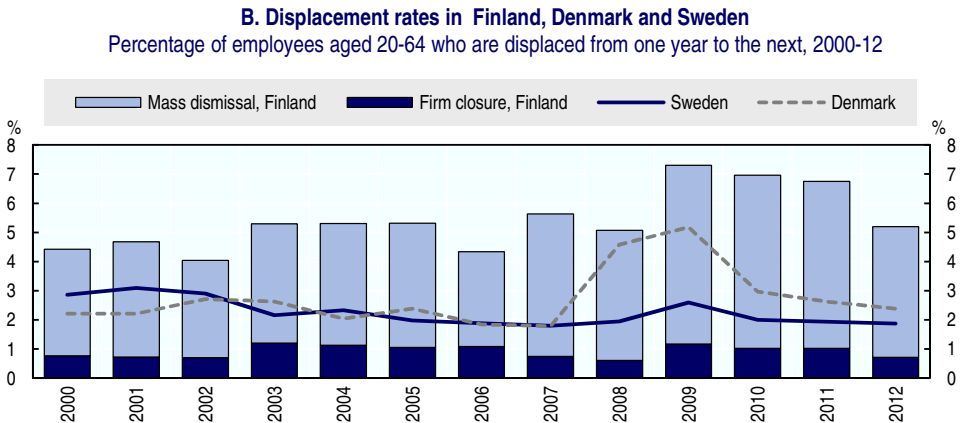
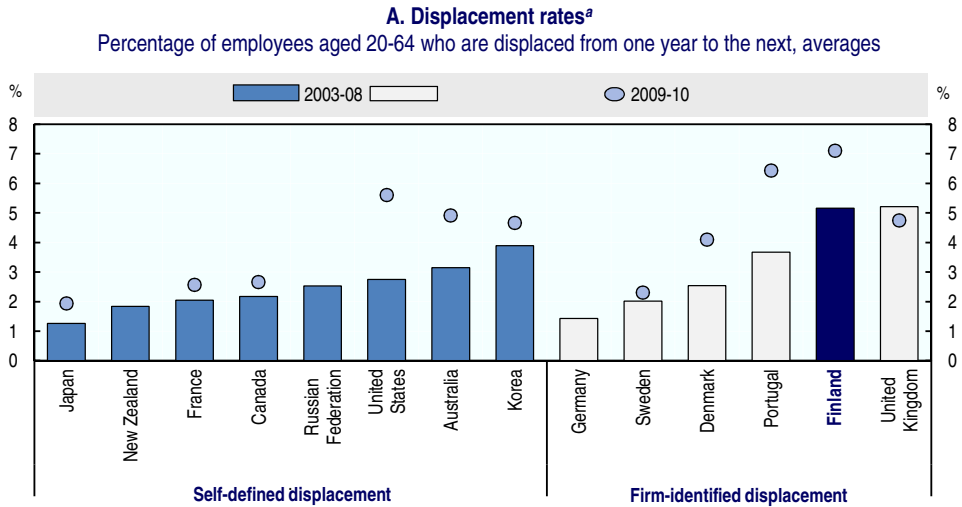
Figure 1.4. **Job separations are relatively frequent in Finland**

- a) Data refer to the difference between the hiring rate and the net employment change.
- b) Employees aged 20-64 excluding those working in the public administration, with job tenure of one year or more.

Source: Panel A: *OECD Job Tenure Dataset*, a subset of the *OECD Employment Database*, [www.oecd.org/employment/database](http://www.oecd.org/employment/database); Panel B: OECD calculations based on the *Finnish Longitudinal Employer-Employee Data (FLEED)*.

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Figure 1.5. **Job displacement rate is high in Finland and remained so after the global financial crisis**



Note: See Annex 1.A1 for the years covered and Annex A1 in the source below for details on the samples and definitions used for each country.

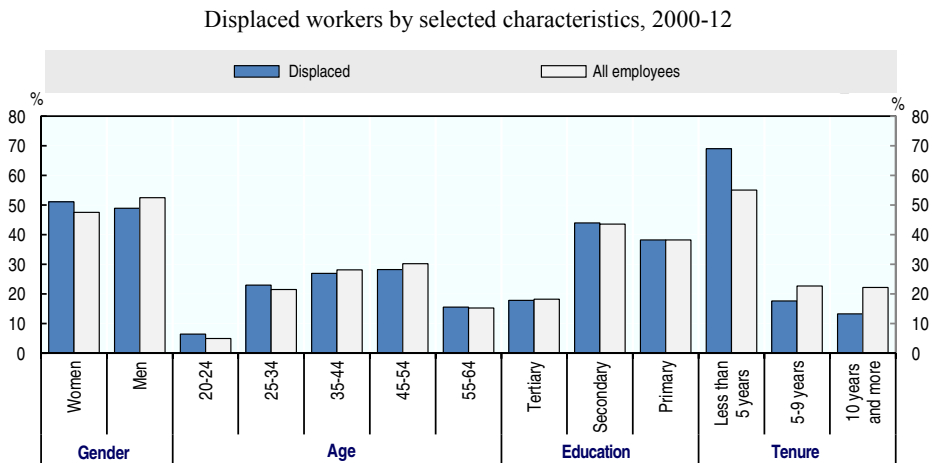
a) Displacement with a tenure of at least one year.

Source: Revised and updated estimates from OECD (2013), “Back to work: Re-employment, earnings and skill use after displacement”, Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, <http://www.oecd.org/els/emp/Backtowork-report.pdf> for Panel A; OECD calculations based on *Integrated Database for Labour Market Research (IDA)* for Denmark, *Individual and Firm level Database at Growth Analysis* for Sweden and *Finnish Longitudinal Employer-Employee Database (FLEED)* for Finland for Panel B.

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The characteristics of displaced workers do not differ much from those of employees in general, except concerning their job tenure: overall, displaced workers have shorter job tenure than all employees (Figure 1.6). Largely reflecting the educational background of all employees a large majority of displaced workers (82%) have less than tertiary-level education.

Figure 1.6. **Most displaced workers in Finland have relatively short job tenure**



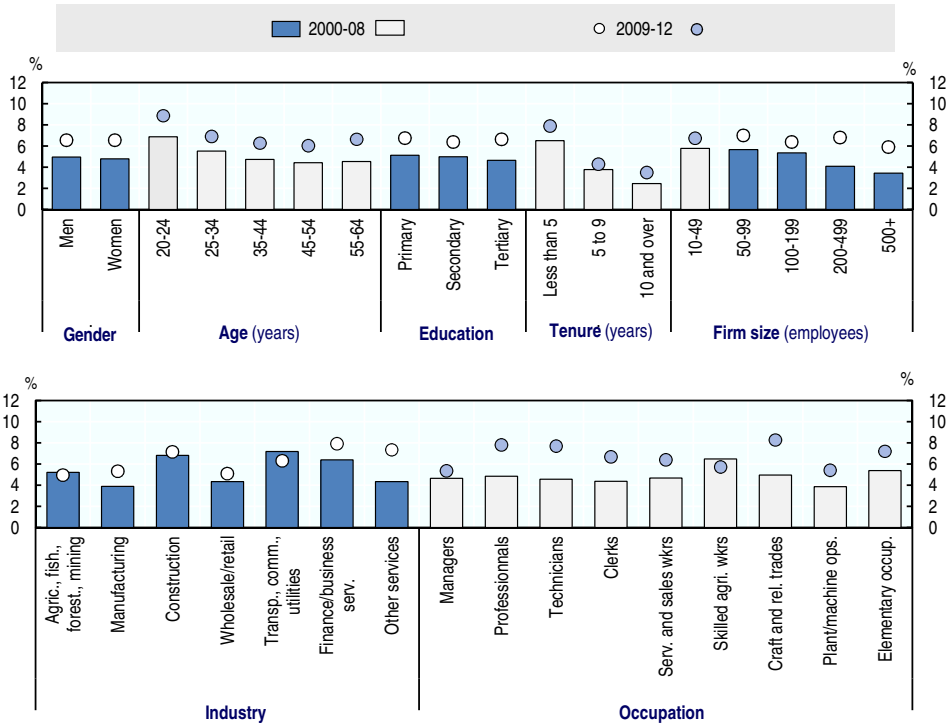
Source: OECD calculations based on the *Finnish Longitudinal Employer Employee Database (FLEED)*.

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Job tenure is also the characteristic which makes the largest difference for the displacement rate: workers with job tenure of less than five years had a displacement rate of about 7% between 2000 and 2012, against 4% for those with job tenure of 5-10 years and less than 3% for those with job tenure above 10 years. Youth face higher displacement rates than the other age groups, although older workers were also strongly affected since 2009 (Figure 1.7). Older workers face some penalty compared with prime-age workers but only a relatively minor of around 0.5 percentage points (Annex Figure 1.A1.1). As in Denmark and Sweden, and unlike in other OECD countries such as Australia, Canada and Korea, workers in the manufacturing sector are not the most affected by displacement; in Finland, transport, communications and utilities, construction, and finance, real estate and business services, are the sectors with the highest displacement rates and the highest probability of being displaced.<sup>3</sup> However, the displacement rate of craft and related trade workers increased strongly during the crisis, as did the rate for workers in large firms.

Figure 1.7. **Youth and short-tenure workers in Finland have a higher risk to be displaced**

Displacement rates by worker characteristics, 2000-12



Note: All differences between pre-crisis (2000-07) and crisis (2008-09) re-employment rates are significant at 95% confidence. All differences between crisis (2008-09) and post-crisis (2010-12) re-employment rates are significant at 95% confidence except for young (20-34) and older (55-64) workers, workers with less than high school, medium tenure (5-9), working in finance/business services and for most occupations.

Source: OECD calculations based on the *Finnish Longitudinal Employer-Employee Database (FLEED)*.

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## Labour market outcomes following displacement

### Getting back into work

*Many displaced workers in Finland find a new job very quickly*

Re-employment rates of displaced workers in Finland are very high compared with most other OECD countries for which data is available, except for Sweden (Figure 1.8, Panel A). On average over the period 2000-12, 87% of all displaced workers found a new job within a year.

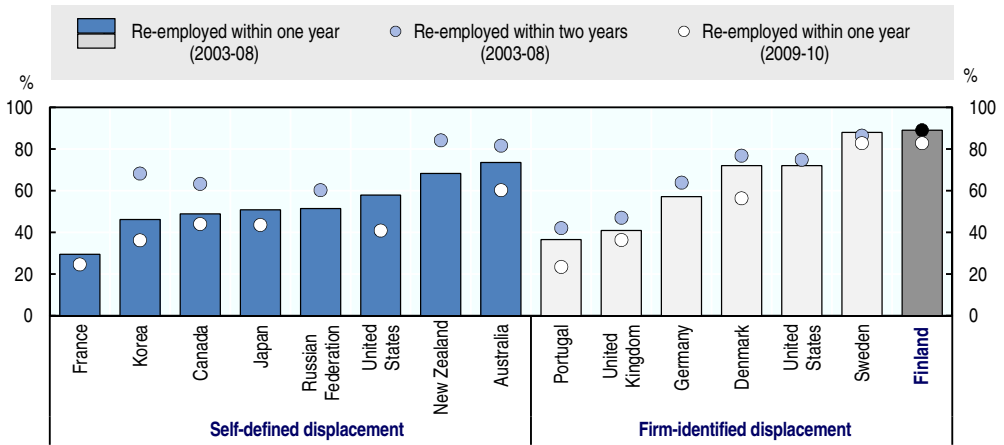
Although they remain high by international standards, the chances of finding a new job appear to have fallen since 2007. After reaching a minimum of 81% in 2009 during the GFC, re-employment rates rose up to their average level again in 2010, but a new decrease is observed in 2012. This is consistent with the reduction in labour market flows in and out of unemployment and the ensuing increase in unemployment duration observed since 2011 as mentioned above. Data for the most recent years is not available, but since re-employment rate developments are linked to the trend in unemployment duration, they might be expected to have decreased further since 2012. In addition, contrary to most other OECD countries, re-employment rates in Finland do not increase further in the second year after displacement. This suggests that workers who do not find a new job quickly are at a high risk of persistent unemployment.

*Older and blue-collar workers have more difficulties getting back to work*

However, some categories of workers face more labour market difficulties than others. Older workers in particular have a re-employment rate about 12 percentage points lower than for a 25-54 year old prime-age worker (Figure 1.9, Panel A). A multivariate analysis identifying the separate effects of each job and worker characteristic shows that older age is the characteristic coming with the highest penalty in terms of re-employment (Figure 1.A1.2). Workers with low levels of education also find it more difficult getting back to work, those with primary and secondary education having re-employment rates that are 12 and 7 percentage points lower, respectively, than for displaced workers with tertiary education. Since 2009, the re-employment rate of long-tenure workers has also worsened compared with those with shorter job tenures. The global financial crisis also increased the disadvantage faced by workers in the manufacturing sector and to a lesser extent in the construction sector, as well as that of craft and related trade workers and plant machine operators. Figure 1.9 (Panel B) shows that more generally the situation worsened consistently for all blue-collar workers more than for white-collar workers, especially for older blue-collar workers, whose re-employment rates after one year reach about 76% over the period 2000-10, against 96% for white-collar prime-age workers.

Figure 1.8. **Most displaced workers find a new job quickly in Finland**

**A. Re-employment rates for displaced workers, Finland and other selected OECD countries**



**B. Re-employment rates for displaced workers within one year<sup>a</sup>, Finland**



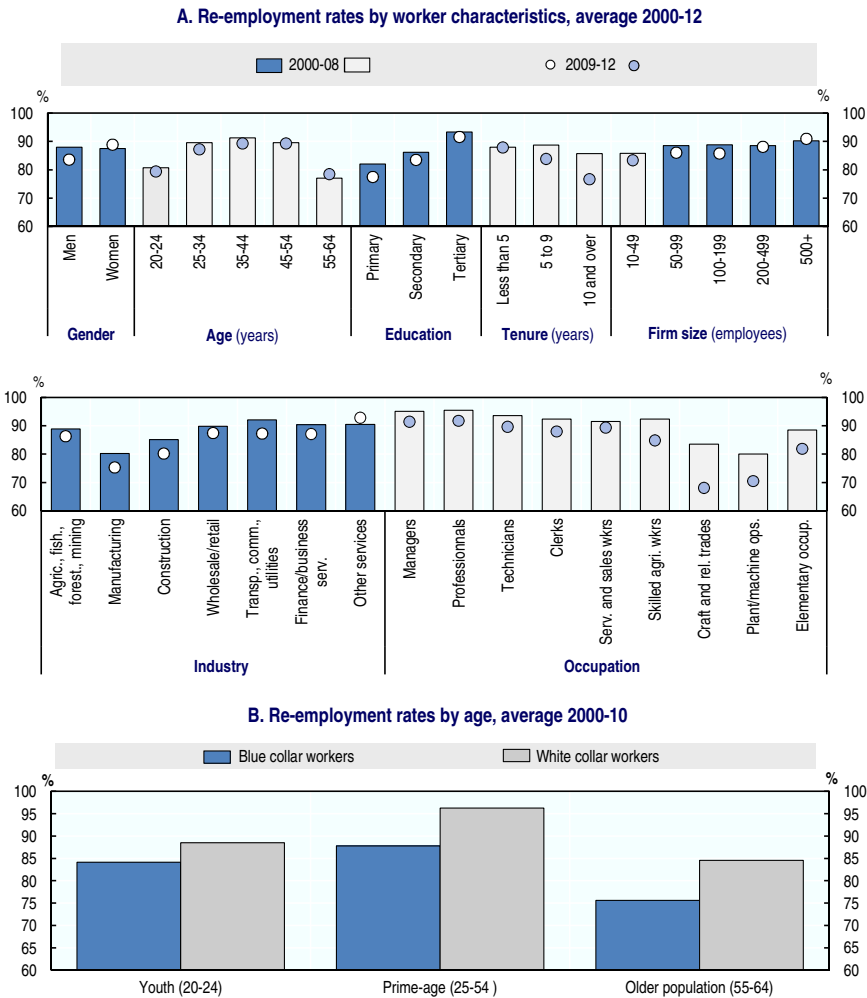
Note: See Annex 1.A1 for the years covered and Annex A1 in the source below for details on the samples and definitions used for each country.

a) Re-employment within one year. Re-employment can include employees, self-employed or employers.

Source: Revised and updated estimates from OECD (2013), “Back to work: Re-employment, earnings and skill use after displacement”, Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, <http://www.oecd.org/els/emp/Backtowork-report.pdf>, for all other countries.

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Figure 1.9. **Older workers and low and medium-skilled blue-collar workers in Finland have more difficulties finding a new job**



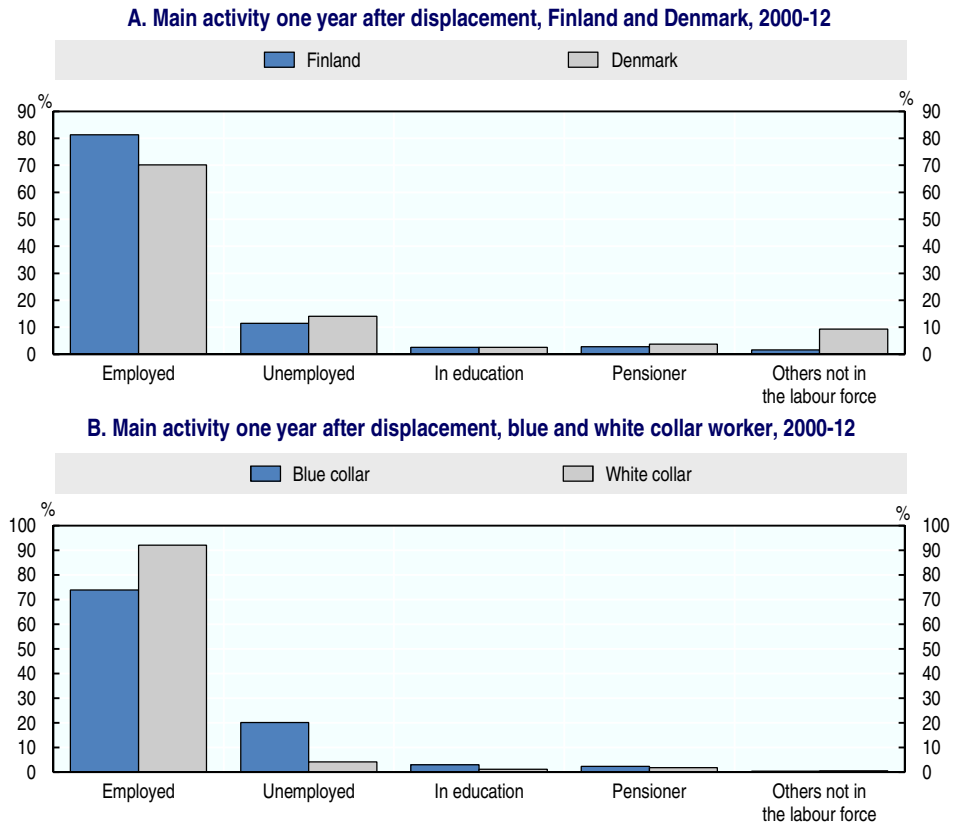
*Note:* All differences between pre-crisis (2000-07) and crisis (2008-09) re-employment rates are significant at 95% confidence. All differences between crisis (2008-09) and post-crisis (2010-12) re-employment rates are significant at 95% confidence except for young (20-34) and older (55-64) workers, workers with less than high school, medium tenure (5-9), working in finance/business services and for most occupations.

*Source:* OECD calculations based on the *Finnish Longitudinal Employer Employee Database (FLEED)*.

StatLink  <http://dx.doi.org/10.1787/888933426365>

In the year following their separation from their previous employer, Finnish displaced workers are much less likely to be out of employment than, for example, Danish displaced workers (Figure 1.10). The difference between the two countries comes mainly from the lower number of displaced workers out of the labour force but not retired or in education (2% in Finland against 9% in Denmark), and to a lesser extent from the smaller share of unemployed workers (11.5% in Finland against 14% in Denmark). However, blue-collar workers in Finland more often experience unemployment in the year following displacement than white-collar workers (16% and 3%, respectively, on average over the period 2000-10). More recent data is not available, but this trend is likely to have persisted or even reinforced.

Figure 1.10. **Re-employment chances are higher in Finland than in Denmark but blue-collar workers are more likely to be unemployed**



Source: OECD calculations based on the *Finnish Longitudinal Employer Employee Database (FLEED)* and the *Integrated Database for Labour Market Research (IDA)* for Denmark.

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### *Scarce information on quality of new jobs suggests no large fall on average*

In addition to the probability of getting back to work, a proper assessment of the effects of displacement on Finnish workers would require comparing the quality of the new jobs found by displaced workers compared with their initial jobs. Unfortunately, not much information is available from the FLEED database that would allow forming such a judgment. In particular, no information is provided on the type of contract that workers have (permanent versus temporary).<sup>4</sup> Information on the part-time or full-time nature of contracts is not available either, but an analysis of the hours worked over the period 2000-09 shows almost no reduction for displaced workers, which suggests that there was no trend towards switches to part-time jobs during that period.

Figure 1.11 provides some information on earnings change after job displacement. Earnings losses following displacement appear to be relatively limited in Finland compared with Denmark and Sweden, and even more so compared with the United States and Germany.<sup>5</sup> This largely reflects the high one-year re-employment rates in Finland. However, older workers in Finland as well as low-educated workers experience higher and more persistent earnings losses than younger and better-educated displaced workers, although losses are also more limited than in the two other Nordic countries.

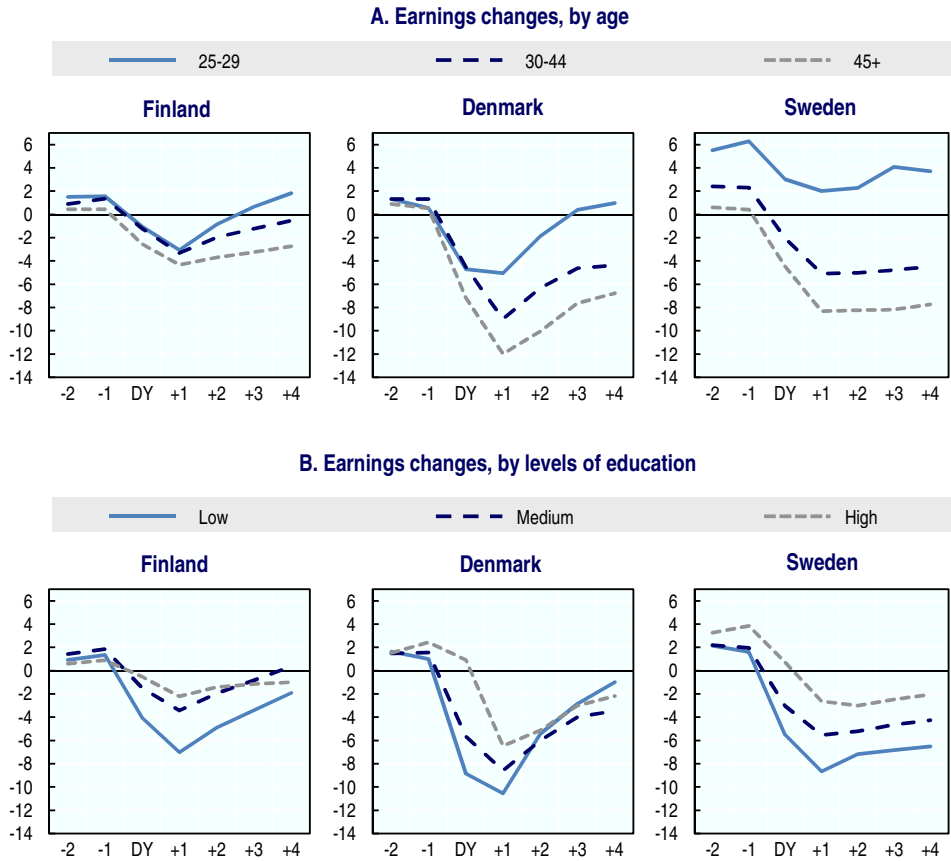
### **A regional focus on worker displacement**

Finland is a large and thinly populated country with sharp regional contrasts in terms of population density and economic activity, related notably to varying climatic conditions. Not all regions are affected in the same way by job displacement. Uusimaa (Helsinki region) and Pirkanmaa (Tampere region) are the regions with the highest displacement rates, but Kymen-Laakso, Satakunta and South West Finland, located in the South and the West of the country, as well as North Ostrobothnia also have relatively high displacement rate.

A high displacement rate is not problematic as such, however. In the Uusimaa region, for example, it largely reflects the dynamism of the labour market, with the re-employment rate also being the highest in the entire country (Figure 1.12). By contrast, South-West Finland, a region very much affected by the restructuring of the maritime industry, has a relatively high displacement rate coupled with a low re-employment rate. This is also the case, though to lesser extent, for Satakunta as well as Kymenlaakso where the pulp and paper industry used to be important.

Figure 1.11. **Earnings losses are relatively small, but less so for older and low-educated Finnish displaced workers**

Earnings changes before and after displacement in Finland, Denmark and Sweden (percentage of pre-displacement earnings<sup>a</sup>), 2000-10



*Note:* Low: less than secondary education; Medium: secondary education; High: post-secondary education. Changes in earnings are calculated through a difference-in-differences approach which compares earnings changes for displaced workers before and after displacement with those for workers who were not displaced. See Annex 4.A1 in OECD (2013) for a full description of the methodology, the samples, years and definitions used for each country. Data refer to annual earnings.

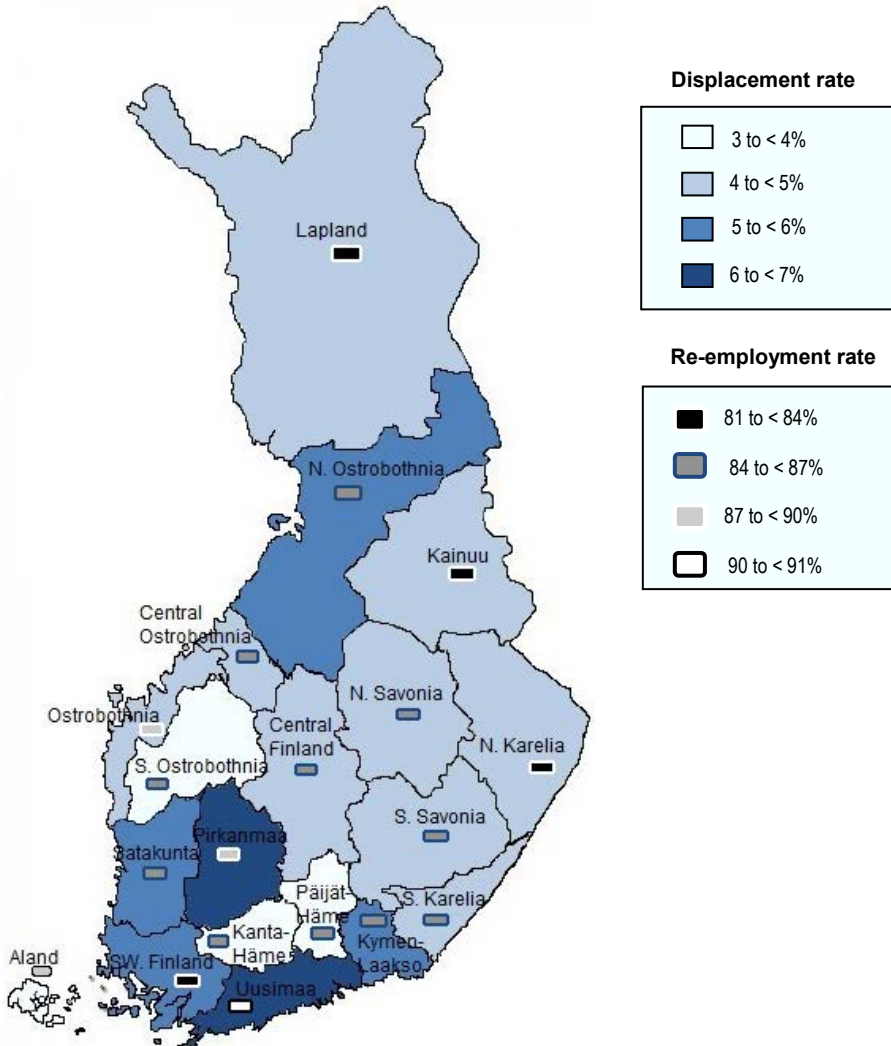
a) Pre-displacement earnings is the average earnings in the year prior to displacement (-1 in each chart). DY = Displacement year.

Source: OECD (2013), *OECD Employment Outlook 2013*, Chapter 4, OECD Publishing, Paris, [http://dx.doi.org/10.1787/empl\\_outlook-2013-en](http://dx.doi.org/10.1787/empl_outlook-2013-en).

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Figure 1.12. **Some Finnish regions suffer more from displacement than others**

Displacement and re-employment rates by region, average 2000-12



Source: OECD calculations based on the *Finnish Longitudinal Employer-Employee Database (FLEED)*.

StatLink  <http://dx.doi.org/10.1787/888933426391>

Other regions have significantly lower displacement rates but quite low re-employment rates for affected workers. For example, Kainuu and North Karelia, two regions with large forestry sectors – both primary resources and associated industry – as well as Lapland, have displacement rates significantly lower than average but at the same time the lowest re-employment rates in the country. They are also regions with high (long-term) unemployment rates.

Internal migration flows can help reducing these regional disparities. However, available information on the number of displaced workers changing regions after their job loss indicate that only a small minority actually does: about 2% of the displaced workers re-employed in the first year following displacement had moved to another region over the period 2000-12; and among those who are not in employment in the year following dismissal, 13% did actually change the region of residence. Finnish displaced workers in less dynamic regions face the same type of obstacle to migration as in other OECD countries, in particular large differences in the prices of housing and reluctance to leave family and relatives behind. These obstacles are typically higher for older displaced workers, in particular those with obsolete skills who would at the same time as they move geographically have to change types of job, while they are presumably the least able to undertake and adapt to such changes.

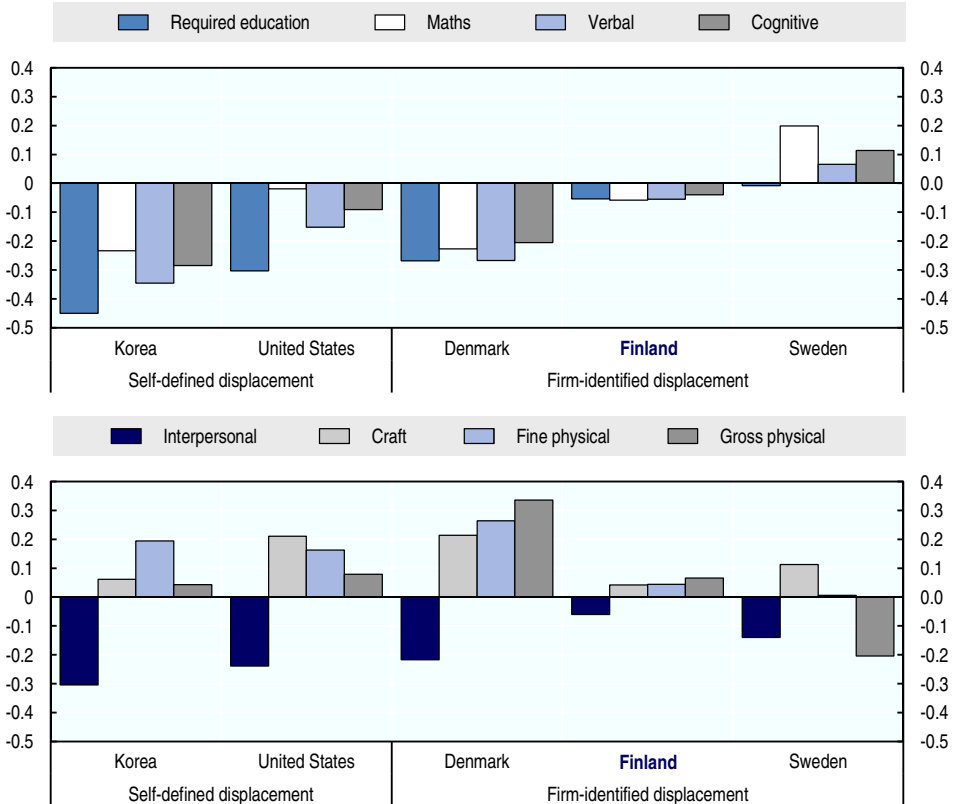
### **How is skill use related to and affected by job displacement?**

#### ***Displaced workers in Finland do not differ much from the average employee in terms of skills used in the pre-displacement job***

The typical set of skills used by displaced workers in their pre-displacement job tends to be different from the one used by the average employee, with interpersonal, verbal and cognitive skills used less and craft and physical skills used more than other employees in most OECD countries except Sweden (Figure 1.13). This is also the case in Finland, but to a rather limited extent compared with other countries. In a global context where demand for cognitive, verbal and interpersonal skills has been rising while that for craft and physical skills has been declining in both the United States and Europe since the 1990s (Handel, 2012), this suggests that Finnish displaced workers face no particular disadvantage on the labour market compared with the average employee. This is consistent with the high re-employment rates observed for Finnish displaced workers.

Figure 1.13. **Skills used in pre-displacement jobs do not differ much from the average employee**

Difference in pre-displacement skill use between displaced workers and all employees, average 2000-10 (units of a standard deviation)



Note: Skill requirements are measured by indices with mean zero and unit standard deviation (see Box 4.3 in the source below). This chart reports the difference in skill requirements between displaced workers and all employees.

Source: OECD (2013), *OECD Employment Outlook 2013*, Chapter 4, OECD Publishing, Paris. [http://dx.doi.org/10.1787/empl\\_outlook-2013-en](http://dx.doi.org/10.1787/empl_outlook-2013-en).

StatLink  <http://dx.doi.org/10.1787/888933426408>

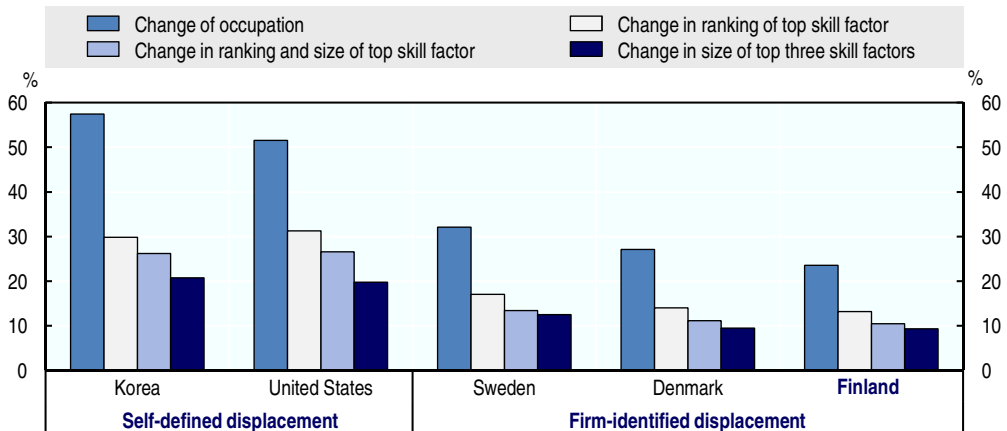
### ***Displaced workers most often make use of similar skills in their previous and new jobs and downgrading is rare***

On average, over the period 2000-10, about one out of four Finnish displaced workers change occupation in their new job. This is a considerable share of displaced workers, but still relatively low compared with other

OECD countries where up to 50% of displaced workers change occupation in their new job (Figure 1.14). Besides, as in other OECD countries, not all displaced workers changing occupation experience major skill shifts: only 13% of Finnish displaced workers move to occupations with very different skill requirements. While this group is likely to benefit from investment in training and lifelong learning in general, the large number of displaced workers continuing to use the same skills as in their previous jobs even in a different occupation underlines the importance of acquiring portable and transferable skills.

Figure 1.14. **Finnish displaced workers continue to use similar skills even when changing occupation**

Skill use before and after displacement<sup>a</sup> (percentage of displaced workers who change occupation<sup>b</sup> and skills set<sup>c</sup>), 2000-10



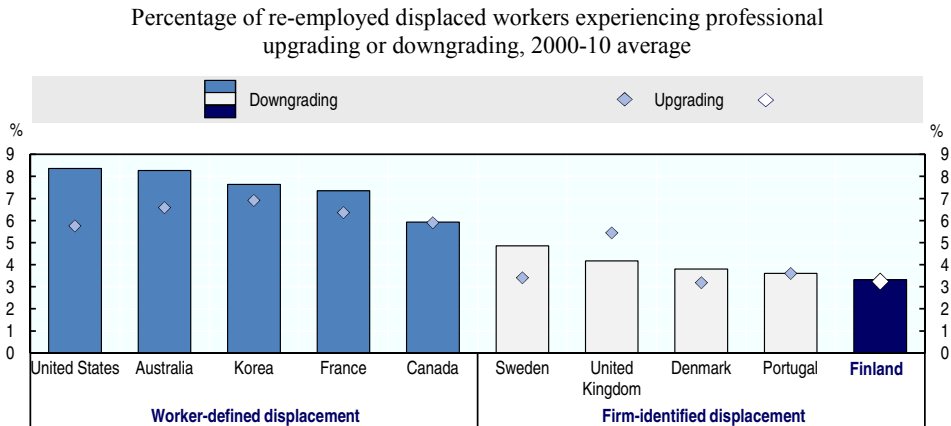
- Skill requirements are measured by indices with mean zero and unit standard deviation (see Box.3 in source below). This chart reports the difference in skill requirements between displaced workers and all employees.
- Occupation is defined at the ISCO-88 two-digit level, with the exceptions of Canada and the United States where it is defined using the US Census occupational classification at the three-and two-digit levels, respectively.
- For skills set changes, the ranking of the top factor is considered to have changed if it has fallen by at least two positions and only changes in skill factor sizes of at least half a standard deviation are considered (see Box 3 in the source below).

Source: OECD (2013), “Back to work: Re-employment, earnings and skill use after job displacement”, Final Report, OECD Publishing, Paris, October, [www.oecd.org/els/emp/Backtowork-report.pdf](http://www.oecd.org/els/emp/Backtowork-report.pdf).

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Skill switches do not necessarily lead to professional downgrading. Some of the displaced workers who are re-employed in occupations with different skill requirements than their previous job may be moving to jobs with higher skill requirements.<sup>6</sup> In Finland, only about 3% of all re-employed displaced workers experienced a skill switch accompanied by a professional downgrading between 2000 and 2010 and about as much actually experienced professional upgrading (Figure 1.15). Downgrading is less important in Finland than in the United States, Australia, Korea, France and the United Kingdom, but about as much as in Sweden and Denmark. In all countries, workers who experience professional downgrading suffer a significant reduction in the use of mathematics, verbal and cognitive skills representing a pool of unutilised human capital and potential source of large earning losses (OECD, 2013a).

Figure 1.15. **Professional downgrading following displacement is relatively infrequent in Finland**



*Note:* Professional downgrading is defined as a skill switch (based on switch measure 2, see Box 4.3 in source below) accompanied by a fall in required years of education of at least one year; professional upgrading is defined as a skill switch accompanied by an increase in required years of education of at least one year.

*Source:* Compiled by the OECD Secretariat using data as described in Annex 4.A1 in OECD (2013), “Back to work: Re-employment, earnings and skill use after job displacement”, Chapter 4 in *OECD Employment Outlook 2013*, OECD, Paris, [http://dx.doi.org/10.1787/empl\\_outlook-2013-en](http://dx.doi.org/10.1787/empl_outlook-2013-en).

*StatLink*  <http://dx.doi.org/10.1787/888933426428>

## Conclusions

Compared with most other OECD countries, the Finnish labour market has performed relatively badly in recent years due to a combination of structural and cyclical factors. Poor growth performance has resulted in net employment decline, as well as in a reduction in flows in and out of unemployment in recent years. The ensuing increase in unemployment duration risks turning part of the cyclical unemployment into a structural one.

Despite some reduction in recent years, labour market turnover is relatively high in Finland, reflecting a continuous process of labour reallocation both across and within industries. Compared with other OECD countries, job displacement i) represents a significant share of these flows and ii) affects a relatively high proportion of employees. At over 5% per year over the period 2000-12, the displacement rate is the highest among the countries studied in the *Back to Work* project. It was already high before the crisis and surged in 2009. Displacement rates are higher for workers with short job tenure, youth and, since 2009, also older workers.

High displacement rates are mirrored by high re-employment rates. At 87% during the first year after displacement, the re-employment rate of Finnish displaced workers is higher than in all other OECD countries except Sweden which has similarly high rates. By contrast, those out of employment after the first year are likely to remain so since the re-employment rate after two year is equal to that after one year. Compared with other countries, relatively fewer displaced workers leave the labour force.

However, as in other OECD countries, some groups fare less well than others. Older and low-educated workers find it more difficult to go back to work. Blue-collar older workers are particularly concerned, and, although there is no recent data, the problems they face are likely to have persisted or even increased after the crisis. Blue-collar older workers are more likely to be unemployed and stay so for a while than other Finnish displaced workers.

Information on job quality is scarce but suggest no large fall, at least in terms of earnings and working hours. This is in contrast to other OECD countries, where job quality is often found to worsen after displacement. Professional downgrading is relatively rare in Finland and at the same level as professional upgrading.

Displacement rates are higher in some regions than in others, but this is not always a problem. The Uusimaa region shows the highest displacement rate but this reflects the high labour market dynamism of the capital region as re-employment rates are also very high. By contrast, some regions with



large primary activities such as forestry or manufacturing or shipbuilding and a less dynamic labour market suffer more. Regional mobility of displaced workers is quite limited, with less than 2.5% of them moving to another region to find a new job.

## Notes

1. *Source:* Ministry of Economic Affairs and Employment and OECD Labour Force Survey.
2. Böckerman and Maliranta (2013) indicate that on average, more than 10% of all jobs in the business sector are eliminated annually, and that this trend had been stable for some years. Worker inflow and separation rates had more than doubled.
3. In part, this is likely to reflect differences in the data sources: Denmark, Finland and Sweden are based on employer/employee data, which provide no possibility to check for the reason for dismissal. By using indirect ways of measuring, through mass dismissals and firm closure, displacement also likely includes some separations due to the end of temporary contracts (of over one year). These might be higher in the transport, communications and utilities, construction, and finally finance, real estate and business services than in the more traditional manufacturing sector.
4. No information is available for displaced workers as such, but, while relatively important (15.6% in 2014 against 11.4% on average in the OECD), the share of temporary employees in Finland has been showing no upward trend since the end of the 1990s, even a slight decrease.
5. See Figure 4.6 of Chapter 4, OECD (2013).
6. As explained in OECD (2013a), the measures of skills switching presented in Figure 1.14 are based on the ranking and changes in value of mathematics, verbal, cognitive, craft, interpersonal, gross physical and fine physical skills requirements. One way to disentangle between downgrading and upgrading skill switches is to measure the level of education required in their previous job, as well as their post-displacement job. A positive change in the number of years of education required between both jobs (of at least one year) is a signal that the person has moved up to a higher-level job while a negative change in required education points to a move down the career ladder.

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- Vanhala, J. and M. Virén (2015), “Shortage of new firms jams labour market recovery”, *Bank of Finland Bulletin* No. 3, <http://www.bofbulletin.fi/en/2015/3/shortage-of-new-firms-jams-labour-market-recovery/>.

### *Database references*

*Finnish Longitudinal Employer-Employee Database (FLEED).*

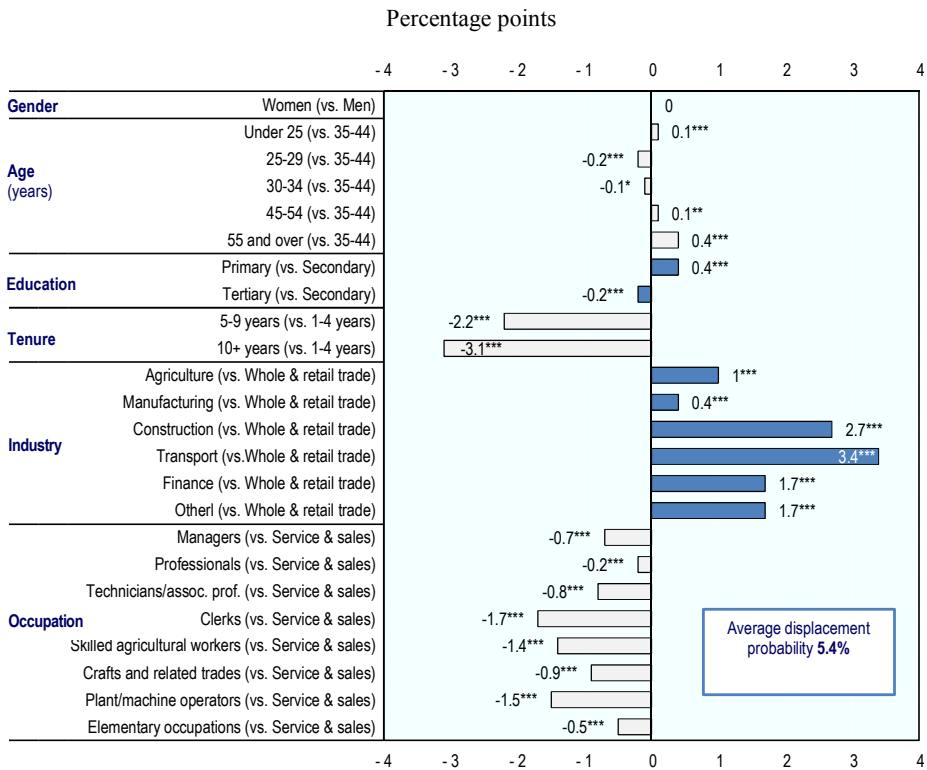
*OECD Employment by activities and status (ALFS) dataset, a subset of the OECD Annual Labour Force Statistics (ALFS) Database, [http://dotstat.oecd.org/Index.aspx?DataSetCode=ALFS\\_EMP](http://dotstat.oecd.org/Index.aspx?DataSetCode=ALFS_EMP).*

*OECD Job Tenure Dataset, a subset of the OECD Employment Database, [www.oecd.org/employment/database](http://www.oecd.org/employment/database).*

## Annex 1.A1

### Supplementary figures and tables

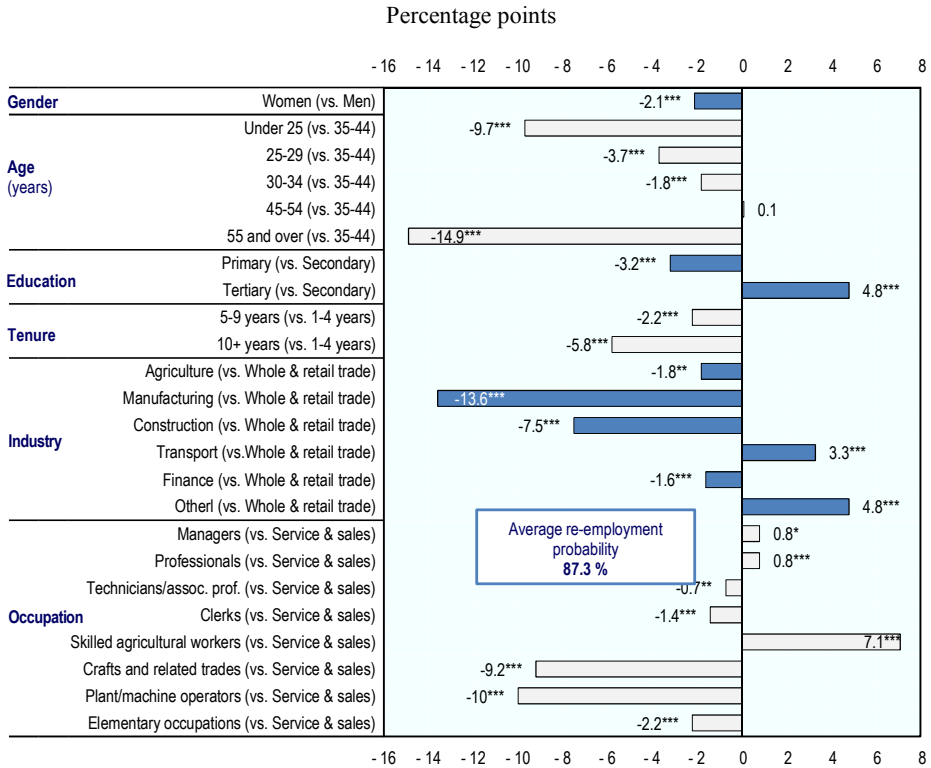
Figure 1.A1.1. **Marginal effect of selected characteristics on the likelihood of being displaced, 2000-12**



Source: OECD calculations based on the *Finnish Longitudinal Employer Employee Database (FLEED)*.

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Figure 1.A1.2. **Marginal effect of selected characteristics on the likelihood of re-employment, 2000-12**



Source: OECD calculations based on the *Finnish Longitudinal Employer Employee Database (FLEED)*.

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Table 1.A1.1. **Displacement rate and re-employment rate coverage and definitions**

Displacement rate			
Definition	Country	Years covered	Years covered
		2003-08	2009-10
Self-defined displacement	Australia	2003-08	2009-10
	Canada	2003-08	2009-10
	France	2004-08	2009-10
	Japan	2003-08	2009-10
	Korea	2003-08	2009
	New Zealand	2003-08	2009-10
	Russian Federation	2004-08	-
	United States	2003, 05, 07	2009
Firm-identified displacement	Denmark	2003-08	2009-10
	Finland	2003-08	2009-10
	Germany	2000-04	-
	Portugal	2003-08	2009
	Sweden	2003-08	2009-10
	United Kingdom	2003-08	2009-10
Re-employment rate			
Definition	Country	Years covered	Years covered
		2003-08	2009-10
Self-defined displacement	Australia	2003-08	2009-10
	Canada	2000-08	2009-10
	France	2004-08	2009-10
	Japan	2003-08	2009-10
	Korea	2003-08	2009
	New Zealand	2003-08	-
	Russian Federation	2004-08	-
	United States	2004,06,08	2010
Firm-identified displacement	Denmark	2003-08	2009-10
	Finland	2003-08	2009-10
	Germany	2000-04	-
	Portugal	2003-08	2009
	Sweden	2003-08	2009
	United Kingdom	2003-08	2009-10
	United States	2000-07	-

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## Chapter 2

### Prevention of job displacement in Finland and early interventions to promote job-to-job transitions

*This chapter analyses the most important policy measures in Finland that take effect prior to workers being dismissed. Measures to prevent excessive layoffs are discussed first, including anticipation of employment and skill needs, the rules governing hiring and firing of workers, and the use of the temporary layoff scheme. The chapter then discusses public intervention aimed at providing support to workers dismissed notably through Change security and the Abrupt Structural Change programme. Overall, the policy set-up allows relatively high labour reallocation while preventing excessive layoffs. The absence of cost for employers may even cause excessive use of the temporary layoff scheme. Information on income and employment support after dismissal is efficiently provided to workers collectively dismissed in large and medium enterprises, but with the increasingly limited means of public employment offices, public early support to dismissed workers does not go much further. This is likely to affect the re-employment prospects of the more disadvantaged groups, in particular the older and low-educated workers.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Employers' labour requirements vary continually as sales fluctuate and production technologies and work organisational practices evolve. Many of these changes can be accommodated through internal adjustments, thereby avoiding hiring and firing. For example, employees may be retained during a business downturn by temporarily reducing their hours of work or assigning them to non-production activities (e.g. training or maintenance work). Even when a firm's labour requirements have permanently declined for a certain type of worker, it may be possible to retrain those workers and transfer them to other parts of the firm. However, not all jobs can or should be saved, in which case timely, well-targeted and effective adjustment assistance can be provided to assist workers whose dismissal cannot be avoided to get an early start at finding new jobs. These types of preventive and anticipatory adjustment support are attractive to the extent that they can reduce the incidence of displacement and its adverse consequences for workers.

To prevent unnecessary layoff, Finnish employers can rely on the temporary layoff scheme, a short-time work scheme with relatively high take-up compared with most OECD countries. Once they intend to dismiss workers, the legislative or regulatory restrictions that Finnish employers face are close to OECD average. Apart from outplacement services firms may voluntarily offer to displaced workers, the public employment service also provides some early support through its *Change security* programme, offered in collaboration with the employer and the workers' representatives. The level of support is much higher when the firm can access support from the *European Globalisation Fund* (EGF). This chapter discusses the major public policies intended to limit the number of displacements or to deliver adjustment assistance to displaced workers before they are dismissed.

## Preventing job displacement

### ***Anticipation of employment and skill needs is widespread***

Restructuring is a permanent feature of dynamic OECD economies and labour markets affecting firms and their workers. Mechanisms anticipating change by forecasting economic and labour market trends and forward-looking management of skills can potentially prevent some mass layoffs and plant closures in the first place. Such mechanisms can also be used to identify regions, sectors and occupations in need when workers are dismissed and asked to re-orient their career or undertake training to remain employable.



Finland has a long tradition of producing analyses of future skill needs. These analyses aim at improving labour supply responses to developments in the labour market by providing relevant information to individuals and regulating student intake. A large number of tools and processes are used to forecast employment and skill needs at various levels and in different ways: i) at the national and regional level, ii) quantitative and qualitative, and iii) over the short-, medium- and long-run. Various stakeholders interact in producing these analyses, partly explained by the long tradition of negotiation between the social partners in Finland (VOX, 2015). The dialogue on skill needs also takes place *within* enterprises, as enterprises with at least 20 employees are requested by law to arrange negotiations with their workers on major changes in work and production, including the skill needs of the company (Arnkil, 2010).

At national level, analyses of future skills are highly institutionalised, with foresight bodies reporting to both the parliament and the government. Since the end of the 1990s, the main tool used to assess the long-term demand for labour and educational needs is the Mitenna model; a model which anticipates demand for and supply of labour over 15 years and uses results to derive educational needs for youth in the 4-5 years ahead. The Mitenna model uses long-term industry forecasts produced by the *Government Institute for Economic Research* (VATT), and changes in the occupational structure of industries are then derived by the *Finnish National Board of Education* (FNBE).<sup>1</sup> Quantitative forecasting is complemented by a process drawing together various qualitative anticipation systems at different education levels along with national experts (the VOSE model) (Arnkil, 2010). It has for example been recently used to anticipate skill needs in the game industry, retail trade and the food industry (VOX, 2015).

All Finnish regions use regional quantitative and qualitative analyses of future skill needs in the short, medium and long term. Key actors on the regional level are the regional councils, the *Centres for Economic Development, Transport and the Environment* (ELY centres), the *Employment and Economic Development Offices* (TE offices), and the education providers (vocational and higher education institutions). Each region has its specificity, but there are common features. Regional councils produce information on regional development and assess future skill developments. They may use a tailor-made version of the Mitenna model to establish regional education targets, specially adjusted for each region by the FNBE. The ELY Centres are responsible for the anticipation of adult education needs and they develop insights in short-term educational needs in the region. In some regions, TE offices are in charge of a so-called interactive foresight model called TKTT, in which they gather information about enterprises' skill needs through surveys and experts discussion.<sup>2</sup>

TE offices also develop occupation barometers in collaboration with employers: they gather information about the local labour market and estimate demand for 200 occupations one year into the future, and assess the corresponding match in three categories (lack of jobseekers, jobseekers in balance, surplus of jobseekers).

This wealth of forecasting tools and processes reflects the importance that is attached in Finland to increasing labour force qualifications and bridging skill gaps. At the same time, the system was criticised for being rather fragmented and possibly too abundant (Arnkil, 2010). It is not always clear how well anticipation efforts translate into concrete actions and policies other than educational targets, and how helpful they are for workers affected by restructuring. Information on labour market and skill needs is *first* of all made available to every citizen on the website of the Ministry of Economic Affairs and Employment. *Second*, ELY centres publish the regional occupational barometer as well as other analyses of labour market and skill needs. The educational targets for youth are used to regulate student intake, and the Ministry of Education draws on regional foresights and education targets when authorising upper secondary vocational education and training. *Third*, the occupation barometer is used by TE offices for career guidance and advice on training and for matching jobseekers with vacancies.<sup>3</sup> But the overall link between foresight activities and practical decision-making could be stronger (VOX, 2015).

### ***Labour law protects workers without hampering labour market dynamism***

Labour law regulates the contract conditions between employees and employers and, thereby, governs the hiring and firing of workers. *Employment Protection Legislation* (EPL) typically has been designed to both protect workers from unfair dismissals and increase job stability, with the aim of shielding workers and society from some of the economic and non-economic costs associated with job displacement. While the costs of displacement are real, a large body of research has shown that excessively strict or poorly designed EPL can greatly hamper the economy by: discouraging job creation, lowering productivity and strengthening labour market dualism (see Chapter 2 in OECD, 2013). However, there is a role for EPL provisions that encourage employers to consider economically justified alternatives to permanent layoffs and, when the latter cannot be avoided, require employers to facilitate the early provision of support services for these workers to allow for their smooth transition to new jobs. In particular, employer-provided advanced notification of planned layoffs can assist in implementing proactive measures, or simply allow workers an early start in searching for a new job.

### *Protection against individual dismissal is relatively high*

Overall, protection for workers with permanent employment contracts in Finland is close to the average across OECD countries. This is the combined result of a relatively high protection against individual dismissal and limited additional requirements in case of collective dismissal (Figure 2.1).

High protection from *individual dismissal* in Finland stems mainly from provisions in the Employment Contracts Act which make it relatively difficult to dismiss workers and imply some procedural inconveniences in case of dismissal. In particular, provisions regarding unfair dismissal are rather strict compared with other OECD countries: dismissal is deemed fair only if the workers cannot be reasonably transferred to other parts of the company or its affiliates or cannot be retrained; an employee who has been laid-off due to economic reasons has priority in re-employment within the same company for nine months following layoff if still unemployed; and compensation for unfair dismissal is also relatively generous. In line with the strong collective bargaining tradition, besides notifying the TE office, the law<sup>4</sup> also requires employers in companies with more than 20 employees to consult with the responsible trade union on reasons and ways to avoid lay-offs. This can last up to 19 days before notice can effectively start.

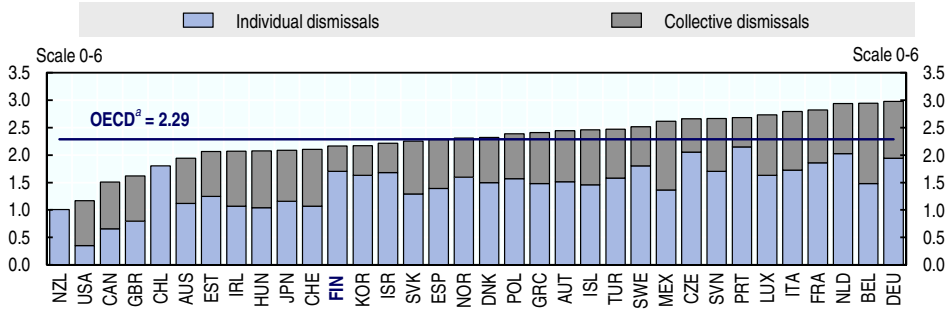
By contrast, provisions regarding advance notice and severance pay tend to be less costly for employers than in other OECD countries. Severance pay regulations are neither included in the labour law nor generally in collective agreements, even though packages will often be negotiated (see below). Compared with other OECD countries, the notice period is relatively short for workers with short tenure and relatively long for those with long tenure (Figure 2.2). At a minimum, workers who have been employed for less than one year have a notice period of 14 days, while the maximum notice period is six months for workers with tenure above 12 years.

Termination costs for workers under temporary contracts before the end date of the contract are higher in Finland than those for permanent workers, as the grounds on which a temporary contract can be terminated are limited, unless specified otherwise in the contract (OECD, 2014). This implies that workers under temporary contracts are better protected than those under permanent contract for the duration of their contract.

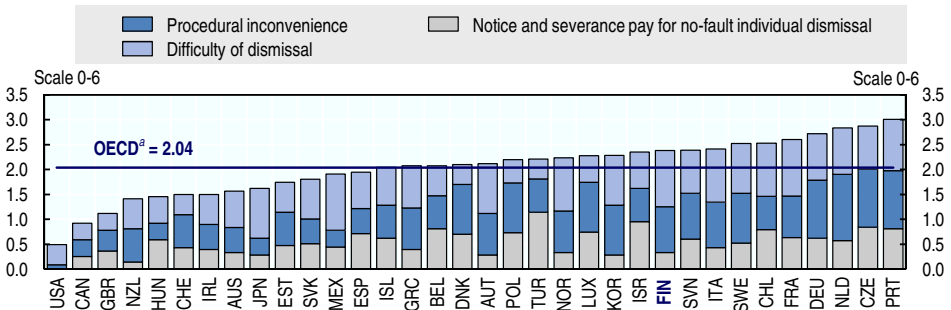
Figure 2.1. **Protection against dismissal for permanent workers in Finland is close to the OECD average**

OECD’s indicator of employment protection legislation by type of dismissal, 2013

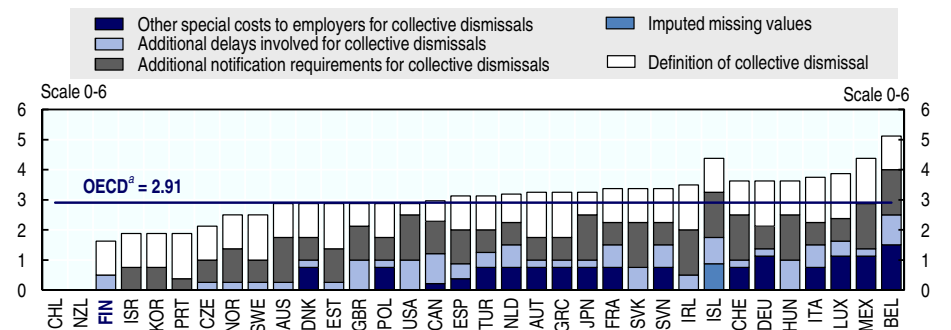
**A. Overall protection of permanent workers against individual and collective dismissals**



**B. Protection of permanent workers against individual dismissal**



**C. Additional protection of permanent workers against collective dismissals**



Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator.

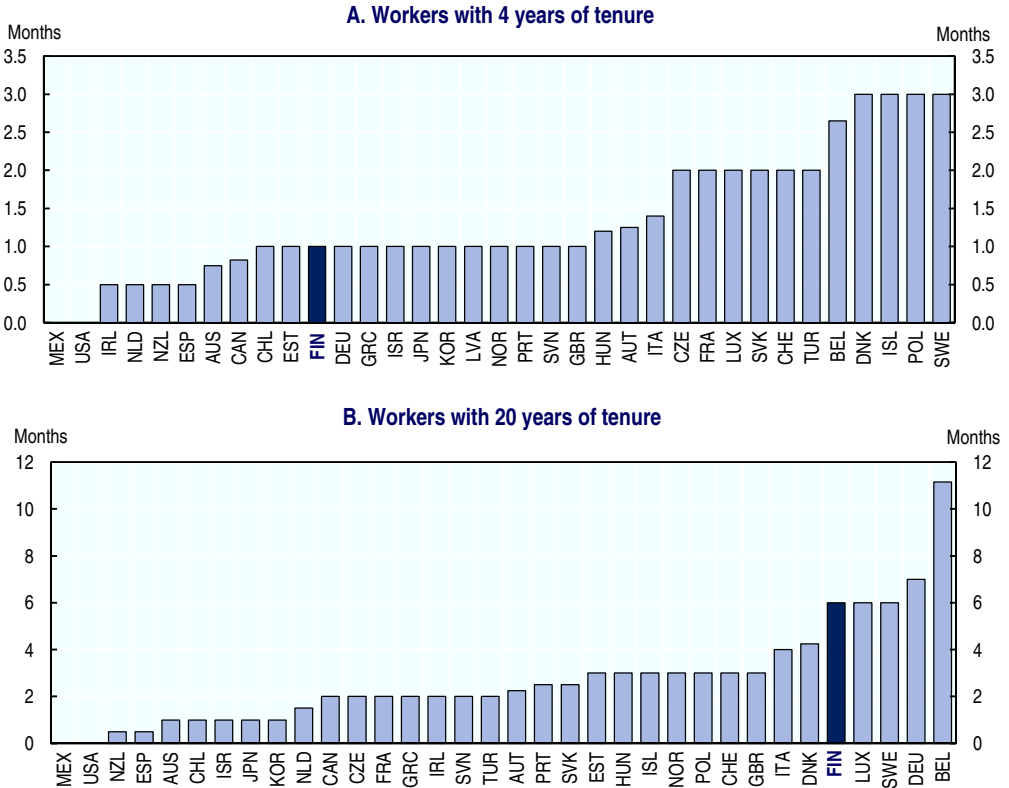
a) Unweighted average of the indicator shown in each panel for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

StatLink  <http://dx.doi.org/10.1787/888933426459>

Figure 2.2. **Notice period is relatively short for workers with short tenure and long for those with long tenure**

Legally mandated notice period (in months) for two types of workers, 2013



Source: OECD Employment Protection Database, 2013 update, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

StatLink  <http://dx.doi.org/10.1787/888933426469>

Additional requirements in case of *collective dismissal* – defined in Finland as the dismissal for financial or production-related reasons of more than nine employees in firms with more than 20 employees – are relatively light in international comparison (Figure 2.1, Panel C). In part, this reflects the fact that individual dismissal is already rather strictly regulated. The only additional requirement is an obligation for consultations on alternatives to the planned redundancies and ways to mitigate the effects of redundancies, which implies an additional delay of between two and six weeks before notice can effectively start.<sup>5</sup> Unlike for example in Sweden, where a strict *last-in-first-out* principle applies, the Finnish labour law does not contain any reference to the layoff order. Collective agreements often

state that the selection procedures should take account of seniority, family circumstances and the retention of skilled personnel.<sup>6</sup> Some collective agreements, for example in the engineering industry, contain precise regulations on how to choose workers to be laid off when a firm is downsizing. Even in those cases, however, regulations do not appear to be very constraining for the employer as those regulations do not seem to be part of the negotiations between employers and trade unions or other employees' representatives (Böckerman et al., 2016). This is consistent with a displacement rate which in Finland decreases much less by the workers' age than it does in Sweden (see Figures 1.4 and 1.5 of OECD, 2015b).

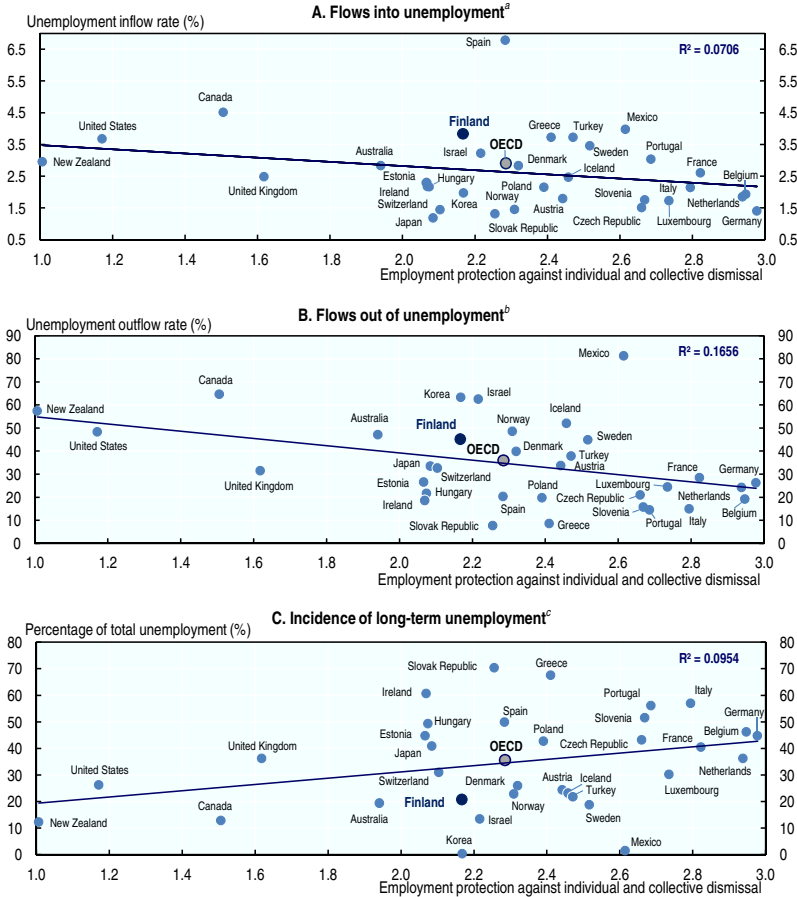
How EPL is enforced in practice also matters when assessing the strictness of the labour law. In many OECD countries, notification requirements to authorities and workers are rather poorly enforced, with limited sanctions for delays and non-reporting. This appears to be the case for example in Canada (OECD, 2015c). Information on EPL enforcement is not available for Finland, but the strong unionisation and collective bargaining tradition imply that EPL is probably better enforced than in many other countries.

### *Employment protection does not prevent high labour market dynamics*

What is the impact of EPL on human resource management practices in Finland? Figure 2.3 displays the cross-country association between EPL strictness for permanent workers and three measures of total labour turnover which plausibly could be affected by EPL strictness: flows in and out of unemployment and the incidence of long-term unemployment. Theoretical arguments and empirical research have shown that strict EPL is likely to reduce the risk for permanent workers to be displaced into unemployment, but also tends to dampen hiring rates so that unemployed persons take longer to move back into new jobs (see the literature review in OECD, 2013, Chapter 2). Figure 2.3 is suggestive of such a tendency, since unemployment inflows and outflows both tend to be lower in countries with stricter EPL, whereas the incidence of long-term unemployment tends to be higher.

Figure 2.3. **Relatively high flows in and out of unemployment result in low long-term unemployment incidence in Finland**

Relationship between the employment protection legislation score and unemployment inflow (share of the workforce), unemployment outflow (share of unemployed) and long-term unemployment (share), 2013



- The unemployment inflow rate is defined as the ratio of the number of unemployed who have been unemployed for less than one month to the number of employed one quarter earlier.
- The unemployment outflow rate is defined as 1 minus the ratio of the number of unemployed for more than a month to the total number of unemployed one quarter earlier.
- Number of long-term unemployed (12 months or more) as a percentage of total unemployment.

Source: OECD calculations based on national labour force surveys; and *OECD Employment Protection Database*, 2013 update, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

StatLink  <http://dx.doi.org/10.1787/888933426477>

Given a level of EPL strictness just slightly below the OECD average, to a certain degree Finland appears as an outlier among OECD countries included in this analysis, with relatively high labour market flows into and out of unemployment. As highlighted in Chapter 1, labour market dynamics are relatively high, in particular compared with other EU countries, quite similar to other Nordic countries. This suggests that EPL requirements are not very restrictive in practice.

To some extent, the high labour turnover in Finland may be the result of employers circumventing some of the legal provisions. In particular, when employers envisage to layoff part of their workforce, it appears to be common practice to negotiate *packages* with workers' representatives, in which workers receive a certain amount (de facto a kind of severance pay) in exchange for voluntarily leaving the company. The reason for employers to propose such packages is to get around the priority employment clause mentioned above. Negotiating such packages is made possible by the fact that voluntarily leaving a job in Finland does not preclude access to *Unemployment Insurance* (UI), although it defers access by the number of months of wage payment that the package represents (see Chapter 3). Priority rules for re-employment of previously displaced workers similar to the rule in Finland also exist in other OECD countries, such as France, Korea, Luxembourg and Sweden, but the extent to which it is constraining for employers differs across countries. For example, a *last-in first-out* rule in Sweden is implemented rigorously so that the priority rule itself is not perceived by employers as very constraining (OECD, 2015b). By contrast, the frequent use of packages in Finland indicates that the re-employment priority clause is considered as a real barrier by employers. The Finnish government currently envisages shortening the re-employment priority from nine months to four months for workers with job tenure of less than 12 years and to six months for those with job tenure of 12 years or more.

Overall, the design of EPL in Finland appears to provide relatively large flexibility to reduce personnel when deemed necessary. The priority re-employment clause seems to drive the behaviour of downsizing firms which try to circumvent the rule through the negotiation of packages. One consequence of this is that displaced workers tend to register with the public employment service at a rather late stage, often only half a year after their actual dismissal. They are in principle allowed to register as jobseekers as soon as they leave the firm (even though initially without unemployment benefit), but they appear to do so very rarely. Thus, negotiated packages may often delay job search significantly meaning that people will have been out of work with reduced re-employment chances when starting to look for a new job. This is much less of a problem for workers dismissed from large companies, as the latter generally organise significant outplacement



(and training) services, but it can be a big problem for workers dismissed in smaller firms. Particularly so for workers with short tenure as the relatively short notice period for these workers leaves little time to organise early intervention measures.

### ***The temporary layoff scheme is used widely***

#### *The temporary layoff scheme is an attractive option for employers*

The temporary layoff scheme is probably the most important policy measure in Finland to preserve jobs and avoid job displacements during recessions and other situations where firms experience low demand. The purpose of *Short-time work* (STW) schemes, such as the temporary layoff scheme, is to avoid the permanent dismissal during a downturn of workers whose jobs would be viable in the long run, while also providing income support for those workers whose hours are reduced due to a shortened work week or temporary layoff. These schemes provide a public subsidy to employers who make use of STW in order to avoid dismissals in a period of decreased sales, provided they satisfy certain conditions.

A majority of OECD countries operate a STW scheme which can be used by employers in situations of unexpected temporary business decline. However, in Finland, where large variability in weather conditions over the year implies equally large variation in activity in certain sectors, the temporary layoff scheme is also used as a seasonal unemployment scheme, similar to Norway. This is particularly the case in the construction sector in the winter period (December-February), and more generally in some machine-intensive industries. Seasonality of participation in the temporary layoff scheme is therefore very high (see Annex Figure 2.A1.1). This way of smoothing seasonal adjustment in Finland has been preferred to fixed-term contracts notably because it provides more security to the employee.

In Finland, the employer can (temporarily) lay off an employee either entirely or by reducing the regular weekly or daily working hours. The Finnish scheme offers two options: i) a temporary layoff for up to 90 days when the employer faces a temporary reduction in the demand for labour and ii) a temporary layoff with no time limit when the work that the employer may offer has diminished substantially or permanently.<sup>7</sup> The layoff can be based on the employer's unilateral decision or on a mutually agreed basis (Arpaia et al., 2010). Until 2014, there were two distinct schemes for individual and collective layoffs, which have been merged since, most likely to reduce red tape.

Overall, institutional features imply a relatively easy take-up of the temporary layoff scheme for employers compared with most other OECD countries. *First*, eligibility requirements are relatively easy to fulfil. Employers may temporarily lay off – the Finnish term for short-time work – an employee if the amount of work, or the potential to offer work, has diminished for a financial or production-related reason. However, unlike for example in Japan (Box 2.1), the employer does not have to provide any evidence or proof to the authorities. In case of collective layoff (more than nine workers in businesses with more than 20 employees), the employer has to consult the workers’ representatives, exactly as described above for full dismissals. Negotiations and agreement with the trade unions are not requested by law and are not usually included in collective agreements. This implies that the employer decides unilaterally on temporary layoffs. To qualify for income-related benefits, *workers* need to be eligible for UI (see Chapter 3 for details). Workers not entitled to UI can receive the basic unemployment benefit during periods of temporary layoff.

*Second*, work sharing and conditionality requirements are relatively light. Employers have a rather large range of permissible reduction of working hours, from a minimum of 25% to 100%, and they face no specific requirements on how working-time reduction is to be distributed across the workforce. Unlike in other OECD countries, participation in the scheme for employers is not conditioned on the prohibition of dismissals during, or for a certain period after, participation in the STW scheme, or on the obligation to develop a recovery plan, as for example in Canada (OECD, 2015c) or to provide training. Workers are required to engage in active job search, just like all other unemployed workers.

*Third*, the generosity of the temporary layoff scheme is rather high. Finland’s STW scheme is financed through the unemployment funds to which employers contribute (see Chapter 3), but in contrast to many other OECD countries, employers do not bear any cost related to the number of workers using the scheme, other than process and image costs, implying a subsidy level of 100%. On the other hand, the duration of the payment (90 days) is short in international comparison in the case of temporary reduction in the need for work but unlimited when the employer faces a permanent reduction (around 10% of the cases in 2012<sup>8</sup>). In practice, it also appears to be possible to prolong the 90-day period, although it is not clear how often this happens. Affected workers receive the unemployment benefit in case of full-time temporary layoff or, since 2010, when working time is reduced by full days. When working hours are reduced throughout the work week, workers receive a proportionally adjusted partial unemployment benefit.

**Box. 2.1. The Employment Adjustment Subsidy in Japan:  
Less generous than the Finnish temporary layoff scheme**

According to OECD (2015a), the features of the Employment Adjustment Subsidy, the Japanese STW scheme, are relatively well designed to preserve as many viable jobs as possible while limiting deadweight and displacement effects. Costs appear to be well shared between employers and the state, the EAS subsidy covering only part of the costs in continuing to pay for the hours not worked (from one half for large firms to two thirds for *Small- and medium-sized enterprises* (SMEs). An additional subsidy can be granted if the employer chooses to offer training demonstrated to be relevant. Eligibility criteria make it likely that the firm is really facing significant economic difficulties. Employers must in particular provide the proof that production in the past three months has declined by at least 10% relative to one year earlier. Subsidy duration is limited to a maximum of 100 days within a year and 150 days within a three-year period.

These criteria make access to the scheme rather strict. However, the efficiency costs of short-time working tend to be reduced during a recession since many more jobs are at risk, especially those in firms with limited access to credit, while the social cost of locking workers into unviable jobs is temporarily lower since there is little prospect they could move quickly into more productive jobs. Hence, during the GFC, the Japanese Government moved quickly to encourage widespread use of the EAS by temporarily relaxing the eligibility rules (e.g. lifting the requirement to have contributed 6 months to the UI) and raising the subsidy level (subsidy rate and duration). Hijzen and Martin (2012) estimate that 445 000 jobs, i.e. 1.1% of total dependent employment, were saved thanks to EAS.

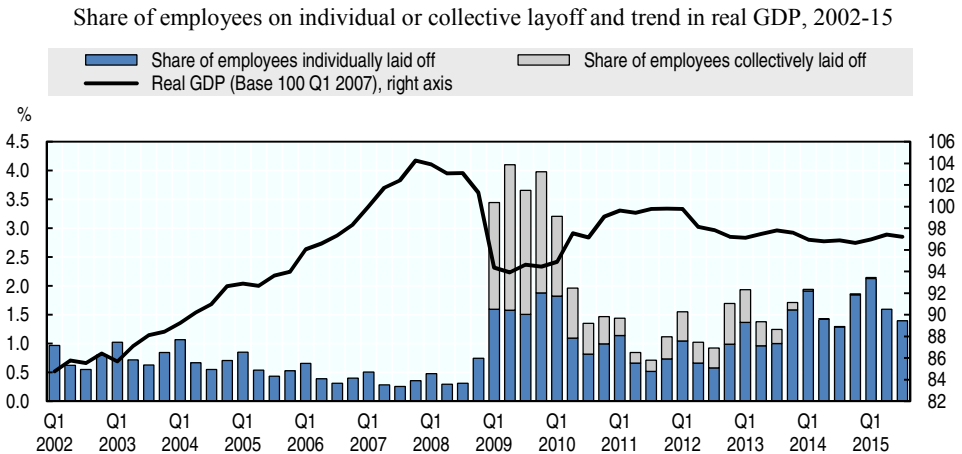
A survey evaluation for 2011 suggests that displacement effects are relatively small in Japan, as 94% of the workers who had participated in the EAS programme were still employed by the same firm six months after the subsidy payments ended and only 0.7% of the firms receiving EAS subsidies closed within one year when they enrolled in the programme (Hirashima, 2013).

*Source:* OECD (2015), *Back To Work – Japan*; Hijzen, A. and S. Martin (2012), “The Role of Short-Time Working Schemes During the Global Financial Crisis and Early Recovery”, *OECD Social, Employment and Migration Working Paper* No. 144, December, OECD Publishing; Hirashima, M. (2013), “Policies for displacement in Japan”, MHLW presentation made at the conference for the Launch of the OECD Analytical Report on displaced workers, 16-17 May, Paris.

Relatively easy take-up implied that, unlike in many OECD countries, no additional measure had to be taken by the Finnish authorities to ease take up during the GFC.<sup>9</sup> Available data indeed show high take up during the crisis. Take up of the *individual* layoff scheme increased from less than half a percentage point before the crisis to about 2% in the last quarter of 2009 (Figure 2.4). Data on the use of the *collective* layoff scheme is available only from February 2009 onwards. Total take up of both schemes including collective layoffs reached a maximum of about 4% (90 000 employees) in the second quarter of 2009. Compared with other OECD countries, the

average reduction in the number of hours was high, as most employers resorted to full-time layoff: four out of five STW participants were fully laid off. Accordingly, a comparison in terms of full-time equivalent take up for 2009 would put Finland at the highest level in the OECD.<sup>10</sup>

Figure 2.4. **The use of the temporary layoff scheme remains higher than before the crisis**



Note: data on participation into the collective layoff scheme is not available before February 2009.

Source: OECD calculations based on data from the Ministry of Economic Affairs and Employment, OECD LFS and OECD national Accounts.

StatLink  <http://dx.doi.org/10.1787/888933426480>

How effective is the temporary layoff scheme in preserving jobs? Based on Hijzen and Martin (2012), the number of jobs preserved by the *individual* temporary layoff scheme between July 2008 and December 2010 can be estimated at about 95 000. The figure would be significantly higher if the collective layoff scheme could have been included. However, a full diagnosis on how many jobs had been preserved is not possible, as data does not allow to track workers temporarily laid off to know what share returns to their initial employment and what share of workers is eventually dismissed permanently.<sup>11</sup>

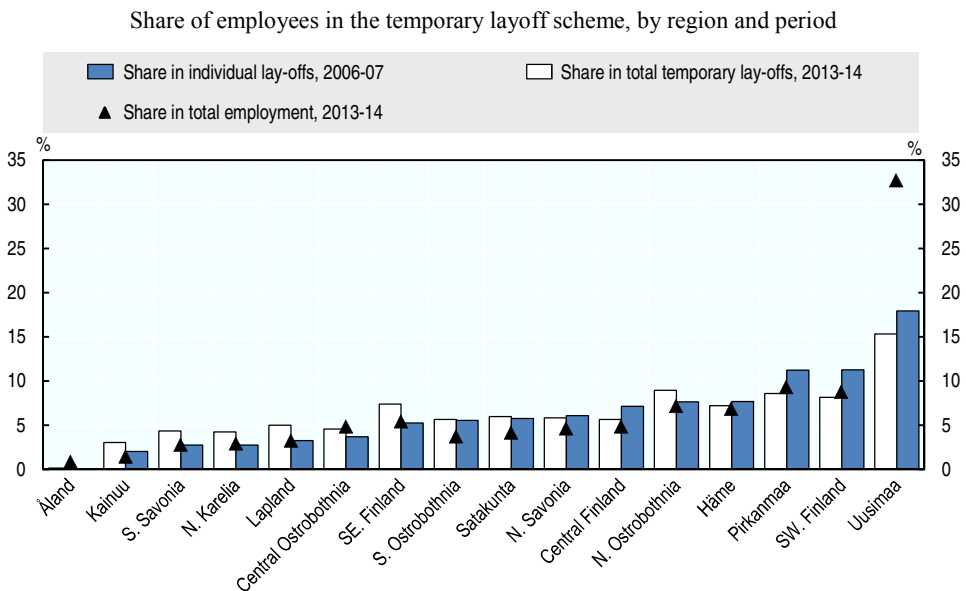
Participation in the STW scheme fell sharply over 2010 and 2011 as GDP bounced back, but increased again over 2012-13 as GDP receded, and appears to keep trending slightly upwards since then. Take up comprised between 1.5% and 2% of the employees in 2015 (Figure 2.4). Strikingly, the seasonal pattern appears to have become stronger than before,

suggesting that in the current difficult economic situation, firms increasingly use the temporary layoff scheme during the quiet months.

### *Participation in the temporary layoff scheme differs across regions*

Analysing participation in the STW scheme at the regional level may help in further understanding how it is used by employers (and workers) and the role it plays in the Finnish labour market. Some regions make much more intensive use of the scheme than others (Figure 2.5). While most temporary layoffs concern workers in the Helsinki region (Uusimaa), the share of the region in the total number of temporary layoffs (18%) is much lower than its share in total employment (32%). By contrast, employers in the Turku (South West Finland) and Tampere (Pirkanmaa) regions, the two largest regions after Helsinki in terms of employment, make heavy use of the scheme as do employers in some of the smaller regions of Central Finland, Northern Savonia, Satakunta and Southern Ostrobothnia. On the other hand, the largest seasonality in participation to the scheme is observed in Central and Southern Ostrobothnia, Northern and Southern Savonia and Kainuu (Annex Figure 2.A1.2).

Figure 2.5. **The intensity of use of the temporary layoff scheme differs across regions**



Source: Ministry of Economic Affairs and Employment and OECD Regional Labour Dataset

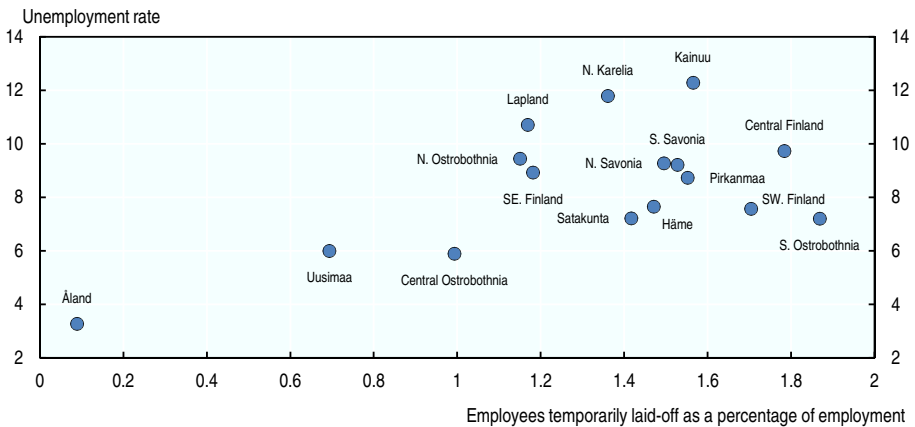
StatLink <http://dx.doi.org/10.1787/888933426492>

To some extent, these regional differences in the use of the STW scheme reflect the economic dynamism and sectoral specialisation of the regions, as well as climatic conditions. The service-centred Helsinki region (Uusimaa) has been significantly less affected by the GFC than other Finnish regions and is less sensitive to climatic variations than more Northern regions. By contrast, South West Finland (Turku region) has undergone major structural change notably with the restructuring of the shipbuilding industry, and GDP has not bounced back after the GFC (Annex Figure 2.A1.2).

Figure 2.6 also suggests a positive correlation across regions between the participation in the temporary layoff scheme and the unemployment rate. This could suggest that the temporary layoff scheme is not only playing the countercyclical role that a STW scheme should be playing, but also more of a structural role as a first step towards unemployment.

**Figure 2.6. Participation to the temporary layoff scheme tends to be positively correlated with the unemployment rate**

Unemployment rate (unemployed as a share of the labour force) and temporary layoff rate (participants as a share of employment), by region, 2014



Source: Ministry of Economic Affairs and Employment and OECD Regional Labour Dataset.

StatLink  <http://dx.doi.org/10.1787/888933426500>

Overall, the temporary layoff scheme plays an important role in Finland in smoothing the effects of the business cycle for affected firms and workers. However, the evidence also suggests that the combination of lax eligibility conditions and lacking direct costs for firms is probably resulting in overuse of the scheme. It is most likely generating non-negligible

deadweight loss, i.e. subsidising jobs that employers would have retained anyway and thus ultimately firms' profits. And it is possibly also generating displacement effects, i.e. temporarily preserving jobs in declining industries. One consequence of the latter is delayed adjustment and job search. To the extent they are expecting to be re-hired, temporarily laid-off workers tend not to start looking for another job and/or cannot be helped in that task immediately. This is not without cost for workers, as it is likely in many cases to reduce their chance of finding a new job.

## Public early intervention to assist workers to be dismissed

### *Early intervention through Change security*

The goal of *Change security* is to help workers dismissed for economic reasons to find a job faster. It is conceived as an operational model based on the cooperation of employers, employees and the TE offices. Change security started in July 2005, after having been negotiated between the social partners and the government as part of the income policy settlements for the years 2005-07. Initially, all permanent employees dismissed for economic reasons could be covered.<sup>12</sup> Change security was then expanded in 2009 to include employees under fixed-term contracts who have been employed for at least three years as well as those who have been or are temporarily laid-off. Employees voluntarily choose to join Change security or not.

Change security consists in a number of obligations and/or rights for the three parties involved via-à-vis each other. First, the *employer* has to notify the TE office his intention to dismiss workers potentially covered by Change security. Simultaneously, before entering the negotiations with the workers' representatives as stipulated in the Act on Co-operation within Undertakings (see above), the employer must provide workers' representatives a written negotiation proposal, an estimate of the number of dismissals and the planned dates of dismissals. In the case of *collective dismissals* of ten employees or more, they should provide the same information to the TE office, as well as information about employee's education, professions or duties at work, and work experience. The employer also has to develop an action plan which includes details about possible services for dismissed workers such as training and job-search support planned at the entire business level. The final action plan is prepared together with the workers' representatives as part of the cooperation and negotiation procedure. In case of *individual dismissals*, the employer has to present principles of action in these areas and he has to inform affected employees about the services offered by the TE offices.

*TE offices*, once notified of the planned dismissals, would start the interactions with employers and affected staff to develop the action plan and agree on providing and arranging a number of services. The work is done by specialised TE officers, called Change security experts – there are currently about 30 of them across the country.<sup>13</sup> At the minimum, they would work with the employer on writing a document providing information about the services that the workers are entitled to receive. In case of large-scale redundancies, they would also organise briefing events for the dismissed employees on the firm premises, providing information mainly on how to search for a job, training possibilities and unemployment benefit eligibility. TE offices also collaborate with the regional ELY centres to provide information on entrepreneurship and business creation.

*Employees* are entitled to paid employment leave during their notice period – 5-20 working days depending on the notice period, i.e. ultimately on tenure<sup>14</sup> – to allow for job search before dismissal. They have to draw up an individual employment plan with a TE office Change security expert, which should include measures agreed to increase the chances of rapidly finding a job, including e.g. job-search requirements and training.<sup>15</sup>

*Change training* can be activated for workers dismissed and covered by Change security. It is co-financed at 20% by the employer. All types of vocational training can be provided through the programme, from courses providing diplomas to short-term training for licenses to further and continuing training. The minimum duration of Change training is ten days, and while it used to be organised for individuals in the past, TE offices now appear to implement it as group training for groups of a minimum of ten workers.<sup>16</sup> Workers can access Change training during nine months starting from the day their work obligation ends.

### *Little is known about the effectiveness of the Change security approach*

How effective is the Change security model in promoting quick job-to-job transitions for displaced workers? A study conducted over the period 2010-11 at the request of the Ministry of Economic Affairs and Employment concluded that results were rather positive (Ålander et al., 2013). However, the lack of a proper control group prevents drawing a causal link between these results and the Change security process itself (see Box 2.2).<sup>17</sup> In the absence of more rigorous evaluation studies, a number of elements gathered from various sources, including interviews with officials, businesses and workers' representatives, allow to assess the situation.



### Box 2.2. The study on Change security: positive results but no causality

The study, undertaken by TK-Eval, is based on data obtained by merging administrative data from the TE offices (URA registry) and data on full-time work from Statistics Finland. It includes persons laid off in 2010 or 2011 and entitled to Change security (around 50 000 persons). It also uses information collected through a questionnaire circulated to different types of TE officers, and face-to-face interviews with a small number of TE officers.

Its main result was that 35% of the displaced workers entitled to Change security were re-employed within three months, and 53% after one year, with no further increase thereafter. These percentages are much lower than those obtained with the FLEED data in Chapter 1, the main reason probably being that they include only those workers who register as unemployed, while FLEED data include all displaced workers, including those who find a job before being dismissed. A very small share of the workers eligible to Change security was found to leave the labour force altogether (about 3% after one year). However, in the absence of a control group, it is not possible to establish a causal link between the Change security process and the measured re-employment results.

In that period, TE offices were able to provide early individual assistance to workers about to be dismissed, although some regions were better resourced for that than others. The increased unemployment benefit payment (which was abolished recently) was found to motivate workers to participate in training measures. Some workers were nevertheless found to have more difficulties than others in getting back to employment, notably older workers with long tenure, those with lower education, and those working in manufacturing businesses in strong decline such as paper products and printing. Workers in subcontracted firms are not as well covered by Change security.

*Source:* Ålander, T., K. Sillanpää, S. Korhonen and V. Manninen (2013), *Security for change through cooperation - A study on the effectiveness and functionality of the operations model of Change security*, TK-Eval, Ministry of Employment and the Economy Publication No. 34/2013, in Finnish.

Overall, the Change security model appears quite effective at reacting early, in developing action plans with employers, and in providing basic information on income support and available re-employment services to workers, at least in case of collective dismissals. Small businesses laying-off less than 10 workers as well as subcontractors affected by large companies' mass layoffs appear to be covered much less well (Ålander et al., 2013).

#### *Early provision of individual intervention is rare*

However, the actual public employment support that workers can access at an early stage, i.e. before actual dismissal, appears to be limited, presumably mostly due to the lack of resources of TE offices.

Even at the information stage, it is now relatively rare that workers can meet a Change security expert face to face and discuss his/her individual situation.<sup>18</sup> In cases of very large dismissals (affecting a minimum of 500 workers) linked to changes in world trade patterns caused by globalisation more generally or the Global Financial Crisis in particular, funding can be received from the EGF, after an application process that employers complain to be heavy and costly.<sup>19</sup> In these rare cases, listed in Table 2.1 below, Change security experts would normally receive workers individually after the briefings when they wish to.<sup>20</sup>

**Table 2.1. Over the past decade, seven large-scale dismissals in Finland have received financial support from the European Globalisation Fund**

European Globalisation Fund cases in Finland: covered workers, total spending (in million euros) and spending per worker (in euros), 2007-17

Company	Year <sup>a</sup>	Business	Workers targeted	National contribution <sup>b</sup>	EGF contribution <sup>b</sup>	Amount per worker	Number of regions involved
Perlos	2007	Mobile phone covers	921	2.0	2.0	4 343	1
Nokia Salo	2012	Mobile phones	1 000	5.4	5.4	10 800	1
Nokia and subcontractors	2013	Mobile phones	3 719	9.8	9.8	5 270	4
STX Rauma	2014	Shipbuilding	565	0.9	1.4	4 071	2
Broadcom	2015	Mobile phone chipsets	500	0.9	1.4	4 600	4
Sectoral case	2015	Programming	1 600	1.7	2.6	2 688	4
Microsoft	2016	Mobile phones	1 441	3.6	5.4	6 246	3
Universities of Helsinki and Aalto	2016 or 2017	Higher education	~800	~1.0	~2.0	3 750	2

- a) Year when funds are granted.  
 b) Amount granted (different from actual expenses).

Source: Ministry of Economic Affairs and Employment.

StatLink  <http://dx.doi.org/10.1787/888933426712>

Individual employment plans could be developed in principle before workers effectively register as jobseekers but this is generally not the case in practice, not even in large cases with EGF funding. In most cases, workers do not receive any concrete employment assistance from TE officers before they are actually registered as jobseekers, except in some cases with EGF funding. Temporary TE office stands were set-up at the firm premises and manned with experienced counsellors at the Perlos factory in 2007 (European Foundation for Improvement of Living and Working Conditions, 2009) as well as in the Nokia factory in Salo in 2012. However, no such

temporary offices were set up in the more recent EGF cases. Moreover, the way the employment plans are developed once workers are registered as jobseekers raises doubts about their quality: after the strong decrease in TE office resources over the past years and the associated large increase in caseloads per TE counsellor – each counsellor dealt with 162 jobseekers on average in 2015, and with many more than this average in some regions in Finland – employment plans are no longer drawn face-to-face but over the phone and often in a rather short talk (see Chapter 3).

The only employment support that dismissed workers can access before being registered as a jobseeker is through Change training. But Change training now seems to be implemented only when EGF funding is available, and total public spending on Change training decreased significantly recently, from EUR 4.5 million in 2013 to EUR 2.3 million (i.e. about half) in 2014.<sup>21</sup> In 2014, the only year for which data is available, about 1 000 workers participated in Change training, representing about 6% of the workers dismissed through collective dismissals in that same year.<sup>22</sup>

Bureaucracy appears to imply a delayed start. Change training can start in principle as soon as the work obligation of the worker ends, which can also be before the worker actually leaves the firm when he/she benefits from some dismissal package. The regional ELY centres normally determine together with the employer the kind of training needed to increase the prospects of displaced workers of getting a new job, and then procure the training services to educational institutions. But the planning of training cannot start until the employer-employee consultations have been brought to completion and has to be followed by competitive tendering which further lengthens the process (Prime Minister's Office, 2016). Employers also often point to heavy bureaucracy associated with implementing Change training, which implies a rather long delay before its actual start.<sup>23</sup>

Overall then, during the period between the notice of dismissal and the actual lay-off, or, for workers accepting a dismissal package from their employers, until the registration with TE office, only those workers willing and able to actively search for a new job will do so. This implies that most workers wait for a considerable number of months before starting their job search. Packages can typically be worth around 5-6 months of the worker's wage, and workers are not allowed to claim unemployment benefit before the end of this period. Although those people, formally classified as voluntarily leaving the enterprise, can access TE services as soon as they leave the firm, even if they cannot receive unemployment benefit for a number of months, they would almost never do so, which likely reflects the relatively low value attached to the services that TE offices can provide.

### Box 2.3. Sweden provides significant early support to displaced workers

Due to the emphasis in the Swedish workplace culture on “protecting people, not jobs”, substantive efforts are made to help transfer dismissed workers to new jobs as soon as possible, even before their effective job loss. The idea underlying this system is that employers, who are leading the restructuring process, are responsible for supporting the employee during the transition phase. The re-employment support is entrusted to the system of Job Security Councils (JSCs), bodies managed by the social partners for a given sector or occupational field, e.g. white-collar workers in the private sector, and financed through employer contributions. JSCs are entitled by special agreements with the social partners to intervene as soon as the workers receive their notice, and the bulk of re-employment support in Sweden is thus provided during the comparatively long notification period.

The role of JSCs is motivated by two principles: first, the fact that a notified worker can become disheartened and be reluctant to adapting to the new situation; second, the belief that such a structural change of job can actually have positive consequences and lead to career improvements.

JSCs offer a range of activities and measures to support displaced workers. Initially, support activities include counselling and coaching, activity plans and competence development activities to strengthen workers’ employability. After these initial activities, other measures including training, personal development and/or help for starting a new business can follow if necessary. Intensive counselling services make up the core of re-employment assistance. Upon the approval of the application for adjustment assistance, each dismissed worker is assigned to a personal adviser. Counselling meetings with a personal advisor are about every two weeks but the service can be customised to meet client needs. These meetings are not mandatory and no formal action is taken in case these are not attended but all JSCs emphasize the importance of being active from the very beginning. The designated advisor acts as a job coach and the aim is to assess the experience, skills and aspirations of the client; to assist displaced workers in writing a CV or resume and a job application; and to help practicing for the interview. If considered worthwhile by the advisor, the worker has the opportunity to take part in skills enhancement programmes

The duration of such services varies according to the worker’s age and tenure. The maximum period during which employment services of this kind are being offered differs across JSCs, but it is generally two years from the notification period.

*Source: OECD (2015), Back to Work: Sweden – Improving the Re employment Prospects of Displaced Workers, OECD Publishing, Paris.*

The limited early employment support provided to displaced workers in Finland stands in sharp contrast with other OECD countries, notably Sweden where significant early intervention is organised by the social partners (Box 2.3), but also Canada (OECD, 2015c). The lack of early intervention may not be so problematic for some groups, such as highly-qualified workers, who are unlikely to benefit from or need

TE assistance, or for workers dismissed from very large firms who often receive significant job search and employment assistance through programmes organised by their employer. For example, Nokia and Microsoft both developed large programmes – Nokia’s Bridge programme and Microsoft’s Polku programme – to assist dismissed workers transitioning to new jobs. These programmes included outplacement services, job fairs, coaching and financial support for enterprise creation, as well as (Change) training co-financed with the public authorities. However, less qualified workers in less dynamic sectors, e.g. workers dismissed from the paper industry, and not receiving significant employment assistance from their employer will suffer from this absence of early intervention, reducing their chances of finding a new job quickly.

In June 2016, as part of the Competitiveness Pact negotiated between the government and the social partners, changes to Change Security have been agreed which now have to be approved by parliament. First, employers in firms with at least 30 employees would have the obligation to offer re-employment training to all employees laid-off for economic reasons with job tenure of five years or more. The value of this re-employment training should correspond to a month of wage of the employee concerned, but no less than the average monthly wage paid by the firm. Second, displaced workers would also be entitled to continued occupational health care services for a period of six months after their dismissal. The cost of this measure will be shared between the employer and social security.

### ***Abrupt Structural Change programme to support regions or sectors***

Since 2007, when a company makes major job reductions or closes its operations in a region with a weak production structure, the Finnish Government has the possibility to designate the affected region as an area under *abrupt structural change* and provide specific funding to promote job creation. The criteria used to designate a region as being in abrupt structural change include: the unexpected character of the shock; the number of (direct and indirect) job losses – both in absolute terms and relative to total local employment – and their effects on the local economy and labour market; and the positive expected impact of the provided funding on job creation. In such a designated case, local municipalities, the business sector, the regional ELY centre, the local TE office and the regional council jointly prepare a growth plan to create new jobs and develop existing jobs over a period of 2-3 years. Support is financed from the national budget (amounts allocated for business investment and development initiatives) or co-financed by the EU through the structural funds or the EGF; about half of the funds provided during the period 2007-10 were co-financed by the European Union (National Audit Office of Finland, 2012).

In the decade 2007-25, 28 areas were designated as areas of abrupt structural change. Lately it also became possible for entire sectors to apply for abrupt structural change funds. The maritime industry and the ICT sector were designated as sectors affected by abrupt structural change. The cuts have typically affected areas relying on manufacturing industries and smaller towns and rural centres, although recently larger urban centres such as Oulu have also become affected, especially when depending on a handful of large enterprises. The majority of areas affected are located in Eastern and Northern Finland, but in terms of total funding, Southeast Finland received most between 2007 and 2012 (Mella, 2013). The Change security procedure is often used more actively in areas of abrupt structural change.

Investment measures, such as direct business grants, business environment development aid, loans and guarantees, etc., generally form the core of an abrupt structural change plan. They are provided by a number of state bodies such as the Finnish Industry Investment Limited (venture capital and private equity investment), Finnvera (export credit guarantee and loans and SME support), Tekes (the Finnish Funding Agency for Innovation) and Finpro (support to SMEs going international). Different types of training measures and labour market initiatives, including Change security and Change training, have also been organised for employees. Overall, direct aid to areas under abrupt structural change totalled about EUR 250 million between 2007 and 2012 (Mella, 2013).

According to the National Audit Office of Finland (2012), interviews conducted for the audit of the abrupt structural change support suggested that adequate funding has been available and that it has been possible to finance all reasonable projects. The statistical analysis performed indicates that while it has not been possible to replace all jobs that have been lost in a short time, employment effects resulting from the activities can be considered positive. However, the real effectiveness of measures cannot be properly evaluated: shortcomings in monitoring both measures and their effects for redundant workers prevent drawing conclusions on what would have happened in the affected regions without intervention.

## Conclusions and recommendations

Finland has a number of tools in place, at both national and regional level, to forecast economic developments and anticipate future qualification and skill gaps. These tools could be better linked to policymaking, and better streamlined. Added to this, anticipation of mass layoffs could possibly be furthered developed in order to make the best possible use of special funding available to respond to such situations.

Labour law and EPL does not appear to constrain restructuring in Finland; labour turnover is quite high and the share of long-term unemployment is lower than in many other countries. The priority re-employment rule for displaced workers, i.e. an entitlement to be re-hired in the coming nine months in case of increased demand of the company, is circumvented through so-called dismissal packages which are negotiated with the workers' representatives, and somehow compensate workers for the absence of severance payments. However, packages can be problematic to the extent that they delay job search, including sometimes for a considerable period, especially for workers in smaller enterprises which usually are unable to offer any outplacement services. Drawing a tighter link between access to unemployment benefits and registration with the employment service (see Chapter 3), as commonly done in other OECD countries, and conditioning future access to unemployment benefits to early registration with the employment service could alleviate this problem.

The Finnish temporary layoff scheme plays an important role in smoothing the effects of the business cycle for firms in difficulties, but the lack of direct costs for firms may result in overuse of the scheme. The seasonal use of the scheme, especially in recent years, is another concern. The cost of subsidising sectors with seasonal demand through the temporary layoff scheme, a policy choice which Finland has taken, should be made transparent. Finally, the conditions for employers to use the temporary layoff scheme are very lenient. Employers should be requested to provide some proof for reduced need of their workers' working time, and to share part of the cost of the scheme; thereby eliminating unjust overuse. Eligibility criteria and cost-sharing conditions could be loosened temporarily, if necessary, in case of large cyclical shocks, as is done in other countries.

Change security is a process, introduced in 2005, that is effective at providing early information on workers' entitlements after actual dismissal (or once they have voluntarily left the enterprise in case of a dismissal package) and helping employers to develop their action plan. But Change security currently does not provide much effective employment services before the worker registers as a jobseeker; maybe with the exception of the rare cases in which EGF funding is available. Due to shrinking resources for the TE offices and the decrease in the number of TE counsellors (and a corresponding increase in the client caseload per counsellor), Change security today is even less effective than it used to be a few years ago. Overall, there is much less involvement of the social partners in Finland in the restructuring process, less than in other Nordic countries, especially Sweden. There is considerable room for the social partners to engage more effectively in an early phase to facilitate job-to-job transitions, to supplement and balance the strong focus in Finland on the provision of passive support.

If implemented, the new obligation agreed in the Competitiveness Pact for employers to provide training to displaced workers will significantly increase early support provided to workers currently not covered by EGF funding (i.e. the majority of displaced workers). It will be important however to work on defining the type of support that might be useful for workers, depending on their characteristics, sector and occupation. Some reflexion on these issues at the national level, by the government and social partners might be useful in this respect. As this change will apply only to displaced workers in firms with 30 employees or more, it will leave displaced workers in smaller firms with limited early employment support.

Abrupt structural change allows providing significant support to regions affected by unexpected mass layoffs. Funding is mostly in the form of investment support, following the objective to invest in businesses rather than in (displaced) workers. However, like with other schemes and approaches in Finland, the lack of rigorous evaluation studies make it difficult to assess the effectiveness of abrupt structural change funds for displaced workers.

Hence, last but not least, there is considerable need to increase policy evaluation in all of these fields. The Ministry of Economic Affairs and Employment has invested considerably in recent years in high quality administrative micro data that are made available to the researcher community. However, to better assess the effectiveness of the temporary layoff scheme, it will be important for the Finnish authorities to track workers temporarily laid-off, in order to find out whether they return to their jobs or are dismissed eventually. Second, services received by displaced workers under Change security or Abrupt structural change should be followed and assessed. In this regard, one option worth considering could be to systematically allocate part of the funds devoted to programmes for displaced workers (and for other jobseekers) to setting up evaluation studies from the very beginning of the projects, as done for example in Germany.<sup>24</sup> Such a project is currently under evaluation by the Prime Minister's Office.



## Notes

1. For a detailed description of the Mitenna model, see Hanhijoki et al. (2012).
2. The following themes are surveyed: changes in the use of their workforce by profession; recruitment problems; training requirements for professions and job assignments; changes in core professions and job content; age distribution and retirement rate of personnel; economic situation now and after one year; training needs; and other business developments (Arnkil, 2010). Some regions, however, such as North Ostrobothnia since 2011, are no longer using the TKKT model.
3. When counselling on training, TE offices have to take account of past results for a given occupation to see whether the classification of the occupation is stable over time, as the six-month time horizon of the Barometer often does not fit the training time horizon.
4. Provisions on cooperation procedures are laid down in the Act on Co-operation within Undertakings.
5. Two weeks according to the Act on Co-operation within Undertakings if the employer considers laying-off less than 10 employees and six weeks for those laying-off more than 10 employees (except for businesses with less than 30 employees where it is always two weeks).
6. *Source:* <http://www.oecd.org/els/emp/Finland.pdf>
7. Employment Contracts Act, Chapter 5, section 2 and Chapter 7, Section 3.
8. *Source:* Ministry of Economic Affairs and Employment.
9. The only change that was made in 2010 concerned the level of income replacement in case of part-time temporary lay-off; see below.
10. Figure 6 in Hijzen and Venn (2011) put Finland in the third position, with a 2% full-time equivalent take up, but Finnish data includes only the individual layoff scheme. Including collective layoffs would undoubtedly put Finland in the first position.
11. Data on the reasons why the temporary layoff scheme ends is available, but it is not constructed in a way that allows answering this question.
12. Initially, it was conditional on the worker having at least three years of employment (with the same or different employers), but this has been removed.
13. The number of Change security experts varies over time. Uusimaa (the Helsinki region) has the highest number, while other regions generally have one or two designated Change security experts only.
14. Workers with a notice period of less than or equal to one month (i.e. a tenure of less than four years) benefit from five days, those with a tenure

of more than on month and less than four months (i.e. a tenure of 4-12 years) get 10 days, and those with a notice period over four months (i.e. a tenure of more than 12 years) get 20 days.

15. Until December 2013, employees covered by Change security were also entitled to higher unemployment benefit when they participated to employment programmes included in their employment plan, such as active job search and training. Other jobseekers participating in employment programmes were also entitled to higher unemployment benefits, but of a lower level. From January 2014, there is no longer a specific premium for jobseekers covered by Change security. All jobseekers participating in employment programmes can receive the same additional amount as unemployment benefit (see Chapter 3).
16. This is not stated in the legislation, but was the case for example in Uusimaa and in Oulu (Northern Ostrobothnia).
17. For the purpose of this study, administrative data from the TE offices and data on full-time work from Statistics Finland were merged. It included persons entitled to Change security who were laid off in 2010 or 2011 (around 50 000 persons). It also used information collected through a questionnaire circulated to different types of TE officers, and through face to face interviews with some of them.
18. At the time the TK-Eval study was conducted, TE officers were intervening more widely on firm premises.
19. For example, the employer has to communicate the personal data of the employees concerned to the EGF. However, the firm is not allowed to disclose such data and thus has to get individual consent for each affected employee. The employer also has to contact each subcontractor to communicate the number of supply chain workers affected to the EGF.
20. This was for example the case for Microsoft-Salo in 2014.
21. In the case of Microsoft, for example, EGF financed 60% of the training expenditure.
22. *Source:* Ministry of Economic Affairs and Employment.
23. The fact that a minimum of ten workers is required now is probably related to that cost, but is de facto precluding such training for workers in small and medium sized businesses.
24. See German UI law, Social Law Book #3, paragraph 282.

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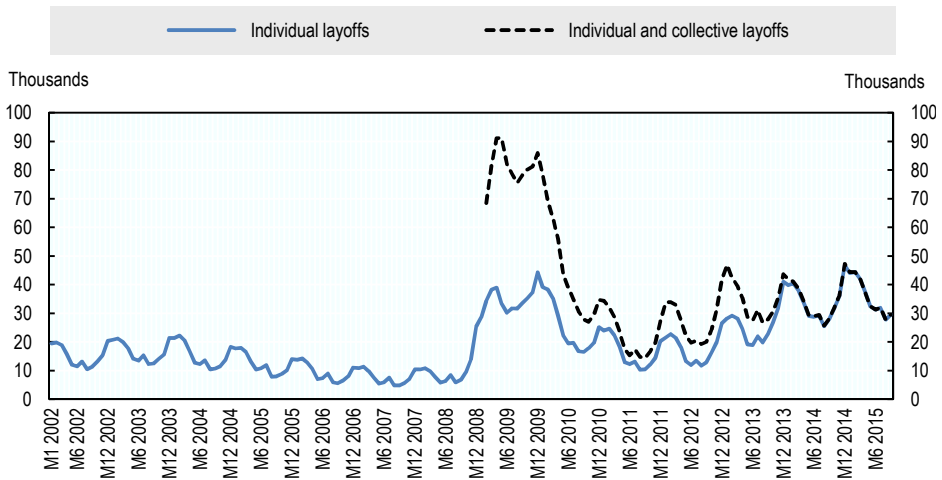
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## Annex 2.A1

### Supplementary figures

Figure 2.A1.1. Participants in the temporary layoff scheme, 2002-15



Source: Ministry of Economic Affairs and Employment.

StatLink  <http://dx.doi.org/10.1787/888933426515>

Figure 2.A1.2. Temporary layoff scheme by region and GDP, 2006-14

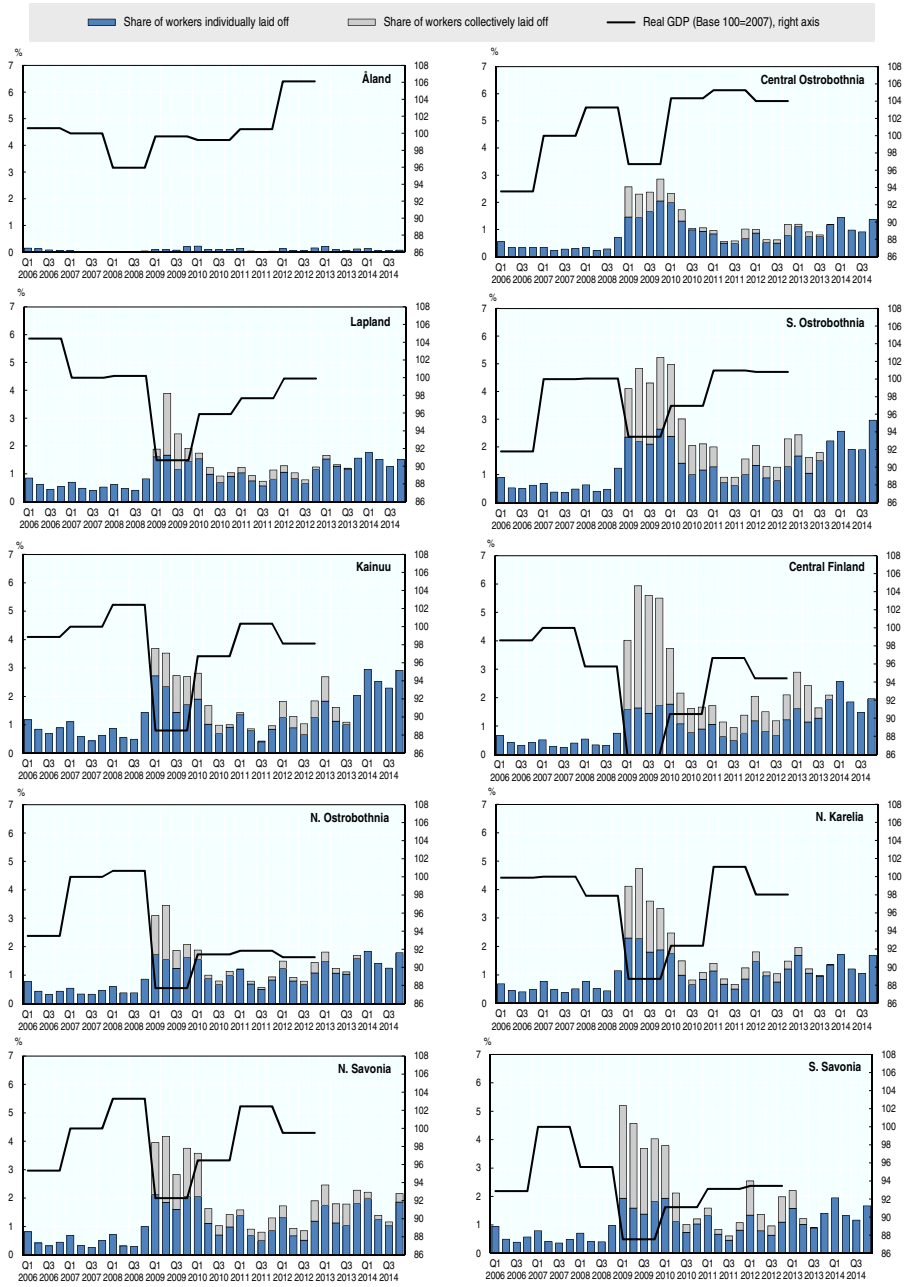
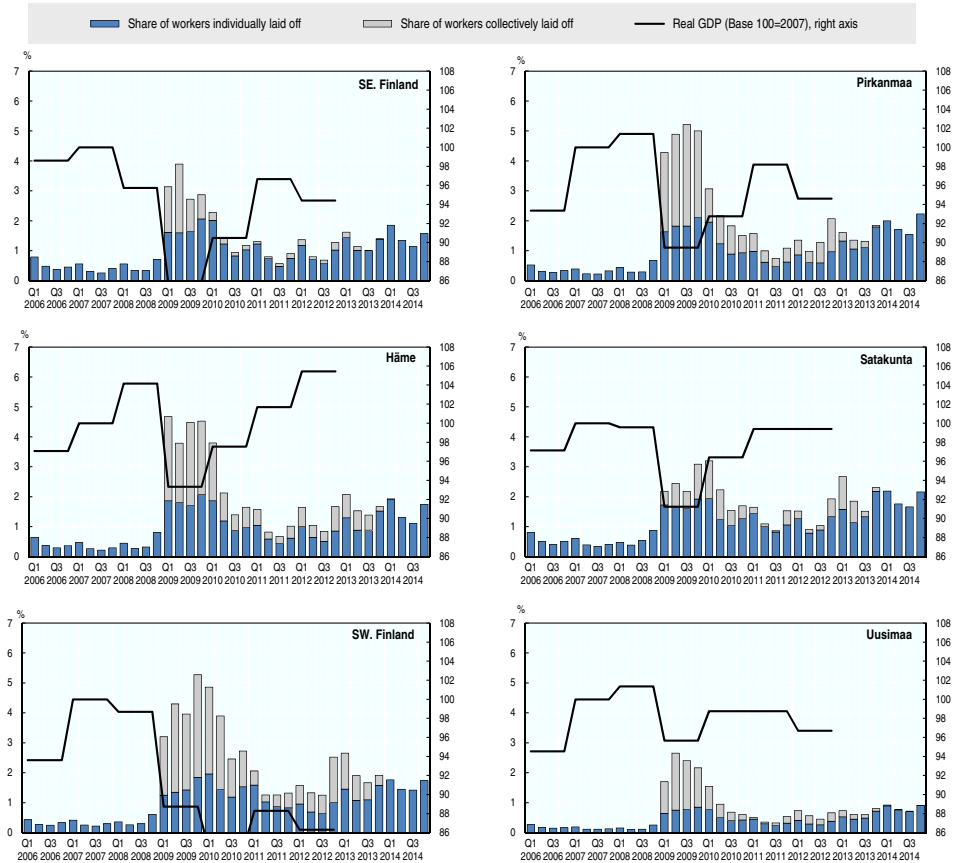


Figure 2.A1.2. Temporary layoff scheme by region and GDP, 2006-14 (cont).



Source: Employment from OECD dataset on Regional Labour; GDP from OECD Quarterly National Accounts and Lay-offs from the Ministry of Economic Affairs and Employment.

StatLink  <http://dx.doi.org/10.1787/888933426524>





## Chapter 3

### Mainstream income support and employment services and their effectiveness for displaced workers in Finland

*This chapter looks at the structure of mainstream income support and employment services in Finland and their impact for displaced workers. Finland does not provide any special schemes or measures for displaced workers and relatively little is known about the use and effectiveness of mainstream benefits and programmes for this group. General evidence suggests that older and low-skilled unemployed benefit the least from employment support and are at the highest risk of becoming long-term unemployed. The structure of passive and active support provided in Finland contributes to this finding. The chapter makes suggestions on how the benefit system and the operations of the public employment service could be changed to help more people in a better way.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Most displaced workers spend some time out of work after their job loss, losing income as a result. Reducing the adverse impact displacement has on family income is an important goal for policy, along with other sometimes conflicting and sometimes mutually reinforcing policy goals, including to secure work incentives, to minimise the time spent out of work, to improve the quality of the new jobs displaced workers move into, and to avoid excessive public spending. Effective re-employment support is the necessary counterpart to adequate income support to achieve all of these goals.

This chapter discusses core income and re-employment supports available for unemployed workers in Finland as well as special programmes in the mainstream system that target displaced workers. It looks at the type of support and services available for these workers, recent trends and policy developments, the suitability of various components of the system for different groups of displaced workers and the resulting outcomes for different groups. Many displaced workers are well protected and supported by the system but some are left behind although overall spending on active labour market programmes and unemployment benefits is very high.

## Accessibility and adequacy of income support

### ***The functioning of the three-tier unemployment benefit system***

In Finland, UI is the main source of temporary income support for displaced workers and other unemployed people who have lost their jobs for other than economic reasons. Entitlement and eligibility rules are stipulated by law (Unemployment Security Act 1290/2002). The UI system in Finland provides income security to 17-64 year-old jobseekers in different forms, with a major distinction between unemployment allowance and labour market subsidy (see Box 3.1 for more details):

- Unemployment allowance is paid either as a *basic unemployment allowance* to all unemployed fulfilling the eligibility criteria or as an *earnings-related unemployment allowance* to those who, in addition, meet the condition to be a member of an UI fund.
- Unemployed who are not eligible for either of these financial supports are entitled to a *means-tested labour market subsidy*.
- Those unemployed who are not covered by any of these forms of unemployment benefit can claim last-resort income support in the form of *social assistance* the amount of which is determined on the basis of incomes and expenses of the household during each month.

The payment of an earnings-related unemployment allowance is administered by the UI funds and the payment of basic unemployment allowance and the means-tested labour market subsidy is handled by *Finnish Social Insurance Authority* (KELA) (the social insurance authority). Earnings-related UI is financed by the members of UI funds, all wage and salary earners and employers in form of compulsory UI fees, and the state. The state finances that part of the earnings-related UI that corresponds to the basic allowance.

UI is a key component of social insurance in most modern welfare states (Landais et al., 2010). The main challenge in UI design is to find a balance between smoothing consumption and limiting adverse effects on incentives to work (Tatsiramos and Van Ours, 2014). The income smoothing property of the UI system depends not only on its generosity but also on entitlement conditions, such as the employment and/or contribution period the unemployed person has to fulfil to qualify for benefits as well as sanctions in case of voluntary unemployment (Stovicek and Turrini, 2012).

In Finland, fulfilment of the employment condition requires that an unemployed jobseeker has been employed for at least 26 weeks during the past 28 months before becoming unemployed and the monthly wage has been in line with the collective agreement or at least EUR 1 134 per month. Meeting the membership condition requires membership in an UI fund for at least the previous 26 weeks during which time the unemployed person has met the employment condition.<sup>1</sup>

To receive unemployment benefit, the unemployed must register at the local office of the *Public Employment Service* (PES), make an effort to actively seek full-time work, and participate in services as agreed in the employment plan. Benefit sanctions are applied if job-search or participation requirements are violated. In the first three months, inadequate jobs can be refused; thereafter, any job in the labour market must be accepted. Travel time must not exceed three hours per day (two hours per day in case of part-time work).

Displaced workers with a work history of 20 years, with at least five year's membership in an UI fund and affected by a collective dismissal, can receive an increased earnings-related unemployment benefit<sup>2</sup> for the first 90 days, provided that they register with the local PES office within 60 days. Displaced workers (and other unemployed) can also get an increased unemployment benefit for up to 200 days while participating in an active labour market programme (ALMP) that was agreed in the PES office and included in the person's individual employment plan.

**Box 3.1. The three-tier unemployment benefit system in Finland:  
A summary of the main features**

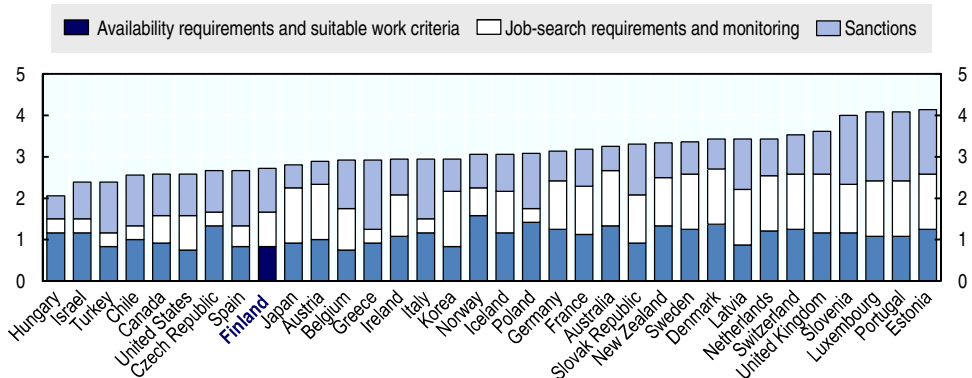
	Earnings-related unemployment allowance	Basic unemployment allowance	Labour market subsidy
<b>Membership condition</b>	Voluntary member of an unemployment insurance fund for at least the past 26 weeks and meeting the employment condition during this period.	Does not fulfil the membership condition of an unemployment insurance fund.	Does or does not fulfil membership condition of an unemployment insurance fund.
<b>Other eligibility conditions</b>	<p>1. Employment condition: employed for at least 26 weeks (at least 18 hours a week) during the past 28 months before becoming unemployed, earnings according to collective agreement or earnings from a full-time job EUR 1 134 /month.</p> <p>2. In addition:</p> <ul style="list-style-type: none"> <li>- registered at an employment office as unemployed jobseeker</li> <li>- seeks full-time employment</li> <li>- available for the labour market</li> <li>- has not found employment and has not been offered training</li> <li>- age limit:17-64 years (exceptionally 65-67)</li> </ul>	<p>1. Employment condition: employed for at least 26 weeks (at least 18 hours a week) during the past 28 months, earnings according to collective agreement or earnings from a full-time job EUR 1 134 /month.</p> <p>2. In addition:</p> <ul style="list-style-type: none"> <li>- registered at an employment office as unemployed jobseeker</li> <li>- seeks full-time employment</li> <li>- available for the labour market</li> <li>- has not found employment and has not been offered training</li> <li>- age limit:17-64 years (exceptionally 65-67)</li> </ul>	<p>Unemployed job seekers aged 17-64 who do not fulfil the employment condition or have exhausted their unemployment allowance entitlement and are in need of economic security.</p> <ul style="list-style-type: none"> <li>- registered at an employment office as unemployed jobseeker.</li> <li>- seeks full-time employment</li> <li>- available for the labour market</li> <li>- has not found employment and has not been offered training</li> <li>- age limit:17-64 years (exceptionally also 65-67-years)</li> </ul>
<b>Maximum payment duration</b>	<ul style="list-style-type: none"> <li>- 500 days for unemployed whose previous work history is three years or longer</li> <li>- 400 days for unemployed whose previous work history is less than three years</li> </ul>	<ul style="list-style-type: none"> <li>- 500 days for those whose previous work history is three years or longer</li> <li>- 400 days for those whose previous work history is less than three years</li> </ul>	No maximum duration.
<b>Payment rate</b>	<p>Flat-rate basic unemployment allowance plus earnings-related component equal to 45% of the difference between the daily wage and the flat-rate payment. For the part of the monthly wages which is higher than 95 times the flat rate, the rate for the calculation of the earning-related part is 20%.</p> <p>Flat-rate child allowance for dependent children, varying by the number of dependent children.</p>	<p>Flat-rate allowance: EUR 32,68/day (five days a week) in 2016.</p> <p>Flat-rate child allowance for dependent children, varying by the number of dependent children.</p>	<p>Flat-rate allowance: EUR 32,68/day (five days a week) in 2016.</p> <p>Flat-rate child allowance for dependent children, varying by the number of dependent children.</p>
<b>Means testing</b>	No	No	<p>Means-testing on household income.</p> <p>Other income can reduce entitlement.</p> <ul style="list-style-type: none"> <li>- Child allowance, housing allowance and social assistance not included in the means test.</li> <li>- The means testing does not apply to over 55-year old unemployed who have fulfilled the employment condition when they became unemployed.</li> </ul>

### *Lenient eligibility conditions result in high benefit coverage*

Finland has relatively lenient access requirements and entitlement conditions for unemployment benefit compared to many other OECD countries (Figure 3.1). Especially job availability and suitable work criteria have been more lenient than in other countries. Finland has allowed refusals of jobs for a broad range of reasons and does not require availability for work during participation in most active labour market programmes. Some tightening of job availability and suitable work requirements will come into force in the beginning of 2017 (see further below). Also, in comparing the country ranking on eligibility criteria in Figure 3.1 one has to take into account that such a synthetic indicator says little about how rules outlined in legislation actually operate in practise (Langenbucher, 2015).

Figure 3.1. **The conditions for unemployment benefit entitlement in Finland are rather lenient in international comparison**

Overall strictness of unemployment benefit eligibility criteria; synthetic indicator based on 11 items, weighted score for all OECD countries



Source: Langenbucher, K. (2015), “How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries”, *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jrxtk1zw8f2-en>.

StatLink  <http://dx.doi.org/10.1787/888933426532>

Based on Finnish income distribution data for 2013, the unemployment benefit pseudo coverage rate for the whole group of unemployed was around 83.6%; a high share in international comparison. The pseudo coverage rate measures the proportion of unemployed who receive any of the three types of unemployment benefit (not including social assistance which is also available in Finland). The rate has remained quite stable between 2010

and 2013, but it is now at a lower level compared to 2005, possibly related to benefit reforms in the past decade (Table 3.1).

Table 3.1 shows that even though overall coverage is high in Finland, there are relatively large differences across population groups. Coverage rates are higher for women than for men, and they increase with age and with the level of educational attainment. The fall in the pseudo coverage rate since 2005 has affected young people and those with low level of educational attainment most.

**Table 3.1. Unemployment benefit coverage is high in Finland but varies with age and level of education**

Pseudo coverage rates of overall unemployment benefit protection by gender, age and level of education, 2005, 2010 and 2013

	2005	2010	2013
<b>Gender</b>			
Female	96.6	85.6	85.5
Male	89.6	82.0	81.9
<b>Age</b>			
17-64	91.6	82.1	83.6
17-24	74.5	65.1	64.1
25-54	94.1	84.3	86.1
55-64	97.5	90.6	95.2
<b>Education</b>			
Primary	89.3	76.7	75.4
Secondary	92.1	85.0	85.6
Tertiary	93.4	79.6	86.9

*Note:* Pseudo coverage rates measure the proportion of unemployed people who receive any of the three types of unemployment benefit available in Finland. The pseudo coverage rates also include the recipients of partial unemployment benefits.

*Source:* Income distribution records from Statistics Finland.

*StatLink*  <http://dx.doi.org/10.1787/888933426723>

There are also differences across groups in the type of unemployment benefit received and thus the level of income security displaced workers and other unemployed are provided with. In 2013, the overall coverage was 42.8% for the most generous earnings-related unemployment allowance, 8.8% for the basic unemployment allowance and 35.8% for the means-tested labour market subsidy (Table 3.2). Differences in this regard by age and level of education are large: among young unemployed (age 17-24) less than 10% are covered by an earnings-related unemployment allowance compared to over 60% among older unemployed (age 55-64). Young and low-skilled displaced workers in most cases receive only a means-tested labour market subsidy. Specific access conditions to that labour market subsidy for young

people have even resulted in a rejection of payment to a substantial number of young unemployed people. The changes in coverage rates since 2005 are to a large extent explained by a significant drop in coverage for the earnings-related unemployment allowance for all groups of the population, and especially those with primary education only. Very little of that drop was compensated by increases in coverage for either basic unemployment allowance or means-tested labour market subsidy.

Table 3.2. **Older and highly-skilled unemployed people in Finland are more likely to receive an earnings-related unemployment benefit**

Pseudo coverage rates by type of unemployment benefit protection and by gender, age and level of education, 2005, 2010 and 2013

	Earnings related unemployment benefit			Basic unemployment allowance			Labour market subsidy		
	2005	2010	2013	2005	2010	2013	2005	2010	2013
<b>Gender</b>									
Female	62.9	47.7	47.8	6.8	8.4	9.7	31.3	27.8	32.6
Male	52.4	42.7	38.8	7.3	12.0	8.1	41.4	31.3	38.4
<b>Age</b>									
17-64	57.6	45.1	42.8	7.1	10.4	8.8	36.3	29.7	35.8
17-24	15.6	10.4	8.4	8.2	10.8	10.7	53.6	44.4	47.7
25-54	62.1	49.6	43.4	7.3	12.1	9.9	35.6	26.3	34.2
55-64	77.8	62.5	61.9	5.2	4.2	4.6	23.7	27.4	30.2
<b>Education</b>									
Primary	55.4	34.0	29.0	6.4	9.7	8.9	39.2	36.0	38.9
Secondary	55.2	44.9	42.0	6.9	11.3	9.7	39.3	32.0	38.8
Tertiary	66.8	57.7	57.5	8.3	8.4	6.7	24.7	16.1	26.1

*Note:* Pseudo coverage rates measure the proportion of unemployed people who receive any of the three types of unemployment benefit available in Finland.

*Source:* Income distribution records from Statistics Finland.

*StatLink*  <http://dx.doi.org/10.1787/888933426731>

### ***Rather stable distribution across types of unemployment benefit***

It is also of interest to investigate the distribution of the recipients of different unemployment benefits by duration of the ongoing unemployment spell. Unfortunately, this is only possible for the whole group of unemployed as administrative statistics do not routinely distinguish displaced workers from other unemployed people. At the end of 2014, of all unemployment benefit recipients 46% received an earnings-related unemployment allowance, 10% received a basic unemployment allowance and 44% received a labour market subsidy (Table 3.3).

Table 3.3. **Long spells of unemployment are typical in Finland for recipients of a means-tested labour market subsidy**

Recipients of different types of unemployment benefit in Finland by duration of the ongoing benefit spell (in weeks), 2014

	Total	Recipients by length of ongoing period (w weeks), %						
		Total	0-4	5-12	13-26	27-52	53-104	105+
Earnings-related unemployment allowance	181 405	<i>100.0</i>	19.1	17.9	20.7	17.8	17.0	7.4
<i>Distribution by duration</i>	(46.0%)		<i>62.1</i>	<i>56.6</i>	<i>51.4</i>	<i>45.1</i>	<i>41.7</i>	<i>21.4</i>
Basic unemployment allowance	39 761	<i>100.0</i>	15.6	19.9	24.1	22	16.6	1.9
<i>Distribution by duration</i>	(10.1%)		<i>11.1</i>	<i>13.8</i>	<i>13.1</i>	<i>12.2</i>	<i>8.9</i>	<i>1.2</i>
Labor market subsidy	173 284	<i>100.0</i>	8.6	9.8	15.0	17.6	21.1	28.0
<i>Distribution by duration</i>	(43.9%)		<i>26.7</i>	<i>29.6</i>	<i>35.5</i>	<i>42.6</i>	<i>49.4</i>	<i>77.4</i>

*Note:* Figures in italics give the distribution across the three unemployment benefits for each duration group. Figures in brackets give the corresponding share of the total number of recipients.

*Source:* Statistical Yearbook on Unemployment Protection in Finland (2014).

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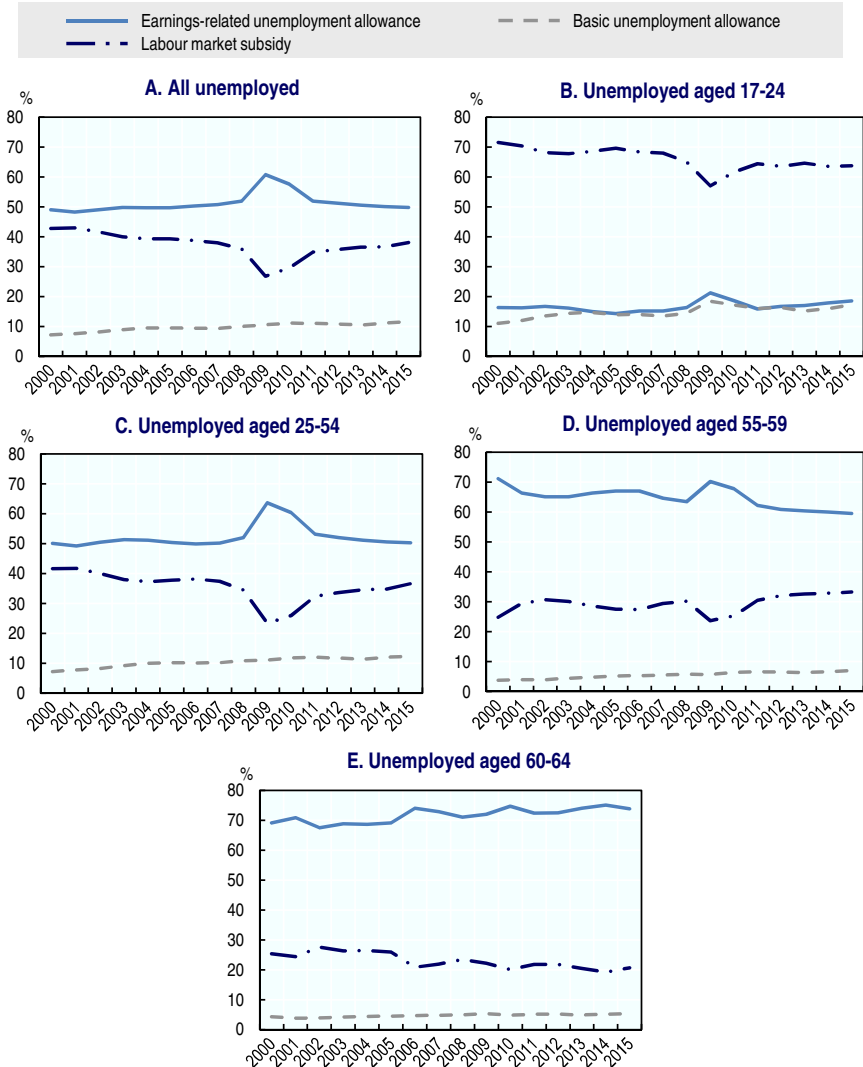
The distribution of benefit recipients by duration of unemployment gives a better approximation of the situation of displaced workers immediately after a job loss. At short unemployment durations of 0-4 weeks, the share receiving an earning-related unemployment benefit at year-end 2014 was close to 65%, much higher a share than at all other durations. But in turn this also implies that even in the beginning of the unemployment spell, more than one-quarter of all recipients received only a means-tested labour market subsidy. Some of them will be young unemployed just entering the labour market without a sufficient work history, rather than displaced workers with substantial work histories. Among those unemployed for at least two years, the large majority (more than three in four people) receives a means-tested labour market subsidy; but many of those people will have received an earnings-related (or maybe just a basic) unemployment allowance initially, for the first 500 days of their unemployment spell, and have then began to receive a labour market subsidy upon exhaustion of their unemployment allowance.

Over the 15-year period 2000-15, the distribution across different types of unemployment benefit has remained quite stable with the exception of the years in the beginning of the global financial crisis (Figure 3.2). During the peak crisis years, i.e. in 2009-10, the number of temporarily laid-off workers rose quite rapidly; this is reflected in the (temporary) increase in the number and share of earnings-related unemployment benefits recipients at all ages.



Figure 3.2. **Around one in two of Finns receive an earnings-related unemployment allowance except for the young unemployed**

Unemployment protection recipients in Finland by type of unemployment benefit and by age group, percentage distribution, 2000-15



Source: Supervisory authority of Finland and Social Insurance Institution of Finland.

StatLink  <http://dx.doi.org/10.1787/888933426549>

Besides that, young unemployed are not only more often than the older unemployed not entitled to any type of unemployment benefit but when entitled, they are also more often reliant on a means-tested labour market subsidy. The reason is that they do not fulfil the conditions on employment before becoming unemployed or registering as a jobseeker.

For the 55-59 year-olds, several increases in the eligibility age for extended UI benefits are reflected in the distribution of recipients across type of unemployment benefit. Changes have decreased the share of the earnings-related unemployment benefit recipients (by over 10 percentage points) and increased the share of labour market subsidy recipients. For the 60-64 year-olds, the removal of the previously-existing unemployment pension explains much of the increase in the share of earnings-related unemployment allowance recipients in this age group.

### ***Relatively long benefit duration and relatively high income replacement***

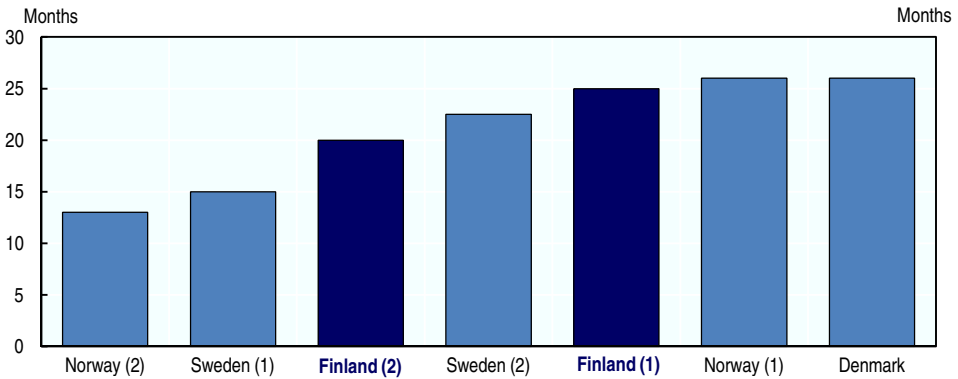
The total income support provided to displaced workers and other unemployed depends on the overall generosity of benefits throughout the whole unemployment spell. The latter depends on the level of income replacement rates of the earnings-related unemployment allowance, the basic unemployment allowance and the labour market subsidy, the duration of these payments, and the distribution of payments throughout the unemployment spell.

In terms of duration and level of the earnings-related unemployment allowance, the Finnish UI system can be characterised as generous: it guarantees displaced workers high income security after a job loss if eligible and for a relatively long time. The earnings-related and the basic unemployment allowance are both payable for up to 500 work days (i.e. two years), or 400 work days if the registered jobseeker has a work history of less than three years. This is longer than in most other OECD countries, except Belgium and the Netherlands (Figure 3.3, Panel B) even though the payment duration is well in line with that in other Nordic countries (Figure 3.3, Panel A).<sup>3</sup> Added to this, the means-tested labour market subsidy can be paid for an unlimited period as long as the person registers as a jobseeker.

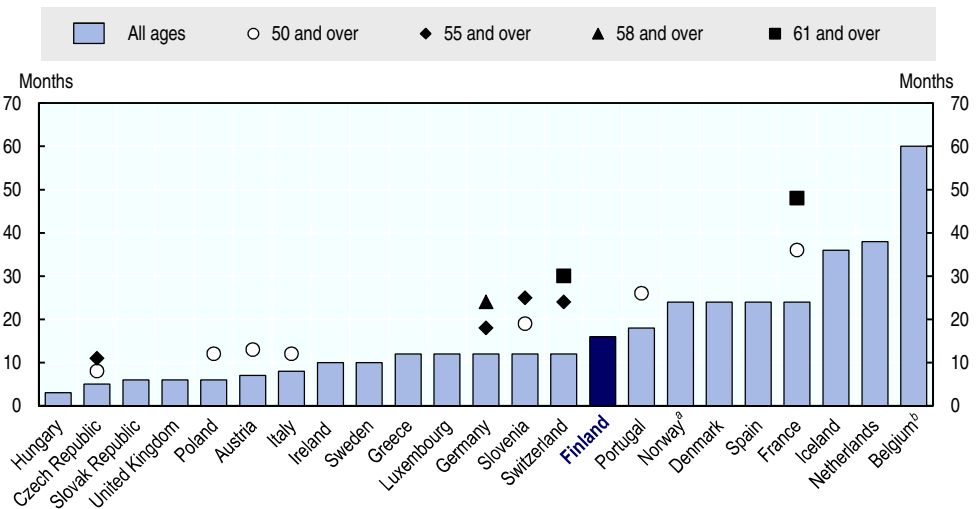
Country comparisons of unemployment benefit payment durations are complicated by the fact that in many countries the maximum payment duration varies with the unemployed person's age or length of the previous work history. Notably, although not shown in Figure 3.3, through age-specific unemployment extensions – discussed in more detail further below – the de facto difference in payment duration by age is larger in Finland than in any other OECD country.

Figure 3.3. **The maximum unemployment benefit payment duration in Finland is above the OECD average**

**A. Maximum unemployment benefit payment duration in Nordic countries, 2015**



**B. Maximum unemployment benefit payment duration in all OECD countries, 2012**



Note: Sweden (2) if the unemployed person has children under age 18, Finland (2) if the unemployed person has an employment history under three years, Norway (2) if wage income in the previous calendar year is under two times the level of basic security (EUR 21 121).

- a) 18 months for an employee aged 40 and over and 26 months for an employee aged 45 and over.
- b) With any duration limit of duration.

Source: MISSOC (Panel A) and OECD Tax and Benefits Systems: OECD Indicators, [www.oecd.org/social/benefits-and-wages.htm](http://www.oecd.org/social/benefits-and-wages.htm) (Panel B).

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Together with benefit payment durations, *Net Replacement Rates* (NRRs) are a key indicator of benefit sufficiency for displaced workers and other unemployed people (OECD, 2005). NRRs show the proportion of net income in work that is maintained after job loss for workers who have lost their job. These rates depend, among other things, on the displaced worker's earnings and household structure and also on system-specific benefit floors and ceilings. Earnings-related benefits typically vary considerably by family type and earnings levels.

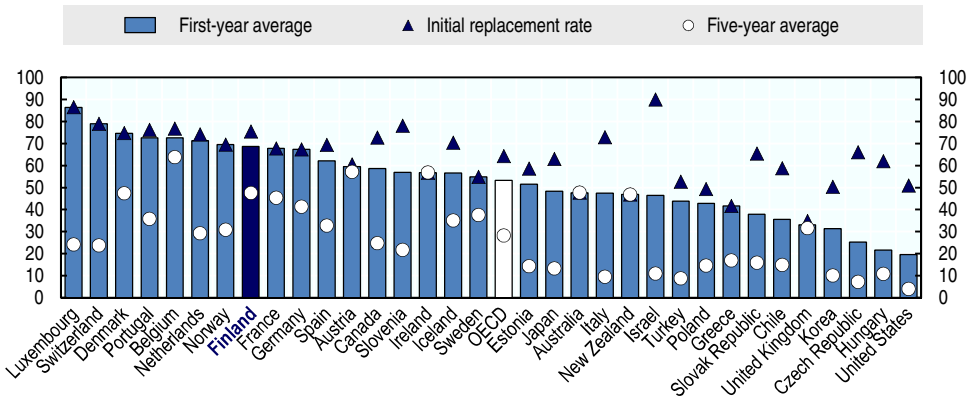
Figure 3.4 compares NRRs of the unemployment benefit system in Finland with those of other OECD countries in three situations (data refer to 2014): in the very beginning of the unemployment spell; averaged over the first year of unemployment; and averaged over five years for a long-term unemployed person, in all cases assuming that the unemployed is initially entitled to earnings-related unemployment allowance. At around 75%, the initial NRR for Finland is well above the OECD average as is the first-year average, at 69%; such the system provides a high compensation level.<sup>4</sup>

It should be noted that 2014, the latest year for which data is available, is somewhat exceptional in Finland because in this year new recipients of earnings-related unemployment received a top-up payment for (up to) the first 90 days which is included in these NRRs. Both before and after 2014, the supplement was paid for a much shorter period. Without this top-up, the initial NRR in Finland and the first-year average would both be 64%. This is close to the OECD average for the initial NRR but still 10 percentage points above the OECD average for the first year. In fact in 2014 only 5.5% of all recipients in Finland received the increased unemployment allowance which requires a long work history.

The NRR is much lower for both the basic unemployment allowance and the means-tested labour market subsidy. The average labour market subsidy was around EUR 35 gross per day (in 2014) which was about half the size of the average earnings-related unemployment allowance. This also means that income drops sharply when people exhaust their earnings-related entitlement. However, because of the relatively long payment duration for earnings-related payments of about two years at 48% the NRR for long-term unemployed people (averaged over five years of unemployment) remains well above the OECD average of 28%. In many other OECD countries, unemployment entitlements run out very quickly, leaving social assistance as the only last resort for needy families.

Figure 3.4. **Finland's net replacement rates of unemployment benefit are above OECD average, both initially and in the long term**

Net replacement rates of unemployment benefits in international perspective, 2014



*Note:* The NRR is the ratio of net income out of work to net income while in work. Calculations consider cash income (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. Social assistance and housing-related benefits potentially available as income top-ups for low-income families are not included. Family benefits are included, while entitlements to severance payments are excluded. NRRs are calculated for a 40-years old worker with an uninterrupted employment record since age 22. They are averages over four different stylised family types (single parents and one-earner couples, with and without children) and two earnings levels on the lost job (67% and 100% of average full-time wages). Due to benefit ceilings, NRRs are in most countries lower for individuals with above-average earnings. For Finland, the NRR for 2014 also includes an increased unemployment benefit payable for the first 90 days; until 2013, this increased benefit was payable only for the first 20 days and as of 2015, the payment period was reduced again.

*Source:* OECD Tax-Benefit Models, [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

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### ***But the poverty risk is nevertheless high for unemployed people***

Nevertheless, the relatively low level of both the basic unemployment allowance and the means-tested labour market subsidy are reflected in relatively high poverty rates for unemployed people in Finland. The poverty rate for people who were unemployed at least six months of the year is over three times higher than the overall poverty rate of the Finnish population (Figure 3.5). In-work poverty of wage and salary earners, on the other hand, is largely in-existent.

Figure 3.5. **Poverty rates among unemployed people are high in Finland despite the strong safety net**

Poverty rates among the unemployed, wage and salary earners and total population, 2000-14



Note: Poverty threshold is 60% of the median equalised disposable household income.

Source: Statistics Finland, Income distribution data.

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Looking at poverty results by the type of unemployment benefit people receive is revealing. In 2013, the poverty rate<sup>5</sup> for earnings-related unemployment allowance recipients (who were unemployed for at least six months during the year) was around 26% compared to 46% for recipients of basic unemployment allowance and even 62% for labour market subsidy recipients. Another indication of the level of income support basic unemployment benefits provide in Finland is that many recipients need to top-up their benefit with last-resort social assistance payments. Among labour market subsidy recipients, 42% also received social assistance during at least one month of the year; this compares with around 10% for recipients of the earnings-related unemployment allowance.

### ***And older displaced workers are often channelled into unemployment***

Older unemployed persons with at least five years of employment in the past 20 years may be eligible for an extension of their unemployment allowance entitlement beyond the 500-day maximum and until they reach the retirement age of 65 years. The terms and length of eligibility depend on the recipient's year of birth because the regulation was changed repeatedly (see KELA, 2014 for more details). With the latest changes the precondition is that one reaches the age of 60 before the 500-day entitlement runs out. De facto the entry age for this so-called unemployment route or unemployment tunnel, therefore, now stands at 58 years.

The aim of this extended unemployment benefit right is to secure a stable income for elderly unemployed for whom re-employment is usually more difficult than for younger jobseekers. On the other side of the coin, however, unemployment probabilities<sup>6</sup> and unemployment durations among the older age groups eligible for this benefit extension have consistently been much higher. The challenge of this system has been to find a balance between providing income security and advancing employment of the elderly unemployed.

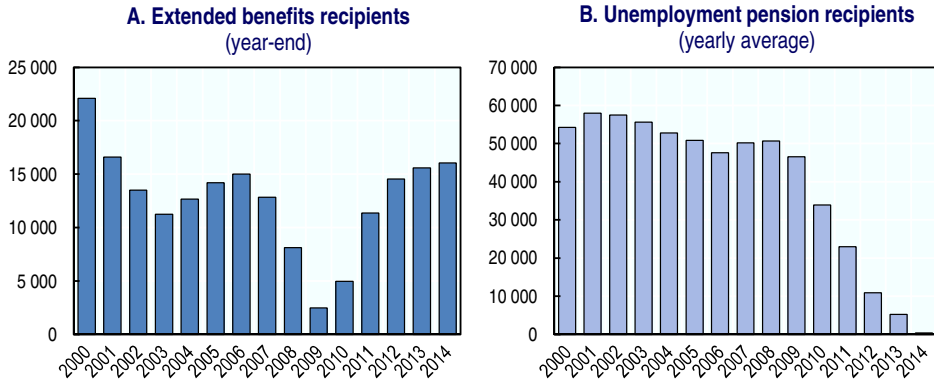
Finnish studies that have inspected earlier reforms i.e. rises to the threshold age (e.g. Kyyrä and Wilkinson, 2006; Kyyrä and Ollikainen, 2008) have found that the transition to unemployment decreased markedly and the share remaining employed increased accordingly among those age groups who were no longer eligible for the extended period. But impacts of more recent reforms have been smaller. For the 2005 reform, i.e. the rise in the threshold age from 55 to 57 years, Nivalainen and Uusitalo (2013) found a positive, but small impact on employment. Jauhiainen and Rantala (2011) also conclude on the basis of their results that it is not possible to gain as large employment effects as were gained from previous reforms by increasing the threshold age further. One reason for this is the greater possibility at this age to use alternative pension routes such as e.g. disability pension.

The threshold age for the extension right was raised several times in the past twenty years and use of the unemployment tunnel has decreased accordingly over the years. But the number claiming extended unemployment benefits has risen again after 2009 largely because of a pension reform, enacted in 2005, that gradually abolished a special unemployment pension (Figure 3.6).

It will be important to monitor future developments rigorously and take action if necessary. Without further reform of the special system, the number of older unemployed on extended benefits is likely to rise further in the future when the earliest eligibility age for old-age pension is raised to 65 years. In 2014, the social partners concluded an agreement on a new employment pension system in Finland, coming into effect in 2017. Extended unemployment benefit arrangements will continue under this new pension system. However, the social partners have agreed to assess by mid-2019 how well the right of the 60-year-old laid-off workers to subsidised employment (that contributes to the employment condition) and to other activation measures has worked in practice; this right was agreed among the social partners in a ‘Working career agreement’ in 2012. On the basis of this assessment a decision is going to be made whether it is possible to increase the minimum age of eligibility for additional days to 62 years, and thereby the threshold age for the unemployment route to 60 years.

Figure 3.6. **The unemployment pension has been abolished but use of the unemployment tunnel is on the rise again**

Recipients of extended unemployment benefits (unemployment tunnel) (year-end) and people on an unemployment pension (yearly average), 2000-14



Source: Supervisory authority of Finland and Finnish Centre for Pensions.

StatLink  <http://dx.doi.org/10.1787/888933426580>

### *Incentive-increasing reforms of the Finnish UI system are under way*

The Finnish UI system has seen affluent number of changes during the past two decades. The main motivation behind changes to the UI system but also other social insurance schemes since the mid-1990s has been to increase the financial incentives of unemployed people to become employed (see Røed et al., 2007 for the main changes in the Finnish UI system between 1990 and 2006).

Also since 2010, the Finnish UI system has undergone a number of changes in regard to occupational and geographical mobility, the maximum payment duration of an earnings-related unemployment benefit and the employment condition (Table 3.4). And the incentive-increasing reforms also continue in the near future. The present government has recently proposed a number of reforms to the UI system that are likely to come into force in early 2017. These reforms are motivated by bringing unemployed people back to work faster, shortening unemployment spells, lowering structural unemployment, and reducing overall costs.



Table 3.4. **Unemployment benefit reform in Finland is a process of continuous adjustment**

Summary of recent and planned changes in the Finnish UI system, 2010-15 and 2017

Year	Changes in unemployment insurance
2010	<p><i>Wage and salary earner's employment condition</i>: unemployed must have been employed for at least 34 weeks (at least 18 hours a week) during the past 28 months (previously 43 weeks during the last 28 months).</p> <p><i>Occupational mobility</i>: occupational skills protection can be removed if PES counsellors are not able to make suitable job offers to the unemployed in his/her commuting area within the first three months of unemployment.</p>
2014	<p><i>Maximum duration</i> of an earnings-related unemployment benefit: for those unemployed whose previous work history is shorter than three years, the maximum payment duration is only 400 days (rather than 500 days).</p> <p><i>Wage and salary earner's employment condition</i>: unemployed must have been employed for at least 26 weeks (at least 18 hours a week) during the past 28 months (previously 34 weeks during the last 28 months).</p>
2015	<p><i>Geographical mobility</i>: an unemployed job seeker has an obligation to accept a job offer outside his commuting area, i.e. outside the radius of 80 kilometers from the place of residence if the daily travel-to-work time does not exceed, on average, three hours for a full-time job and two hours for a part-time job using public transportation. If the daily travel-to-work time exceeds these time thresholds, the unemployed job seeker can refuse this kind of job offer.</p>
2017	<p>Waiting days: the number of waiting days increased from five to seven days.</p> <p><i>Maximum duration</i> of an earnings-related unemployment benefit:</p> <ul style="list-style-type: none"> <li>- for eligible unemployed whose previous work history is shorter than three years and who are under 58 years: reduced from 400 to 300 days.</li> <li>- for eligible unemployed whose previous work history is three years or longer and who are under 58 years: reduced from 500 to 400 days.</li> </ul> <p><i>Geographical mobility</i>: the unemployed can refuse a job offer if the daily travel-to-work time would exceed on average three hours for a full-time job and two hours for a part-time job using his own car (previously the maximum travel-to-work time was by using public transportation).</p> <p>A right for an increased unemployment benefit for the unemployed with long working history abolished.</p> <p><i>Occupational mobility</i>: PES counsellors can remove the occupational skills protection if suitable jobs are not available in the commuting area.</p> <p><i>Refusal of a job offer</i>: the unemployed has a just cause to refuse a part-time job when the pay from the job, together with the adjusted unemployment benefit after adjusting for additional costs (especially travel costs), is smaller than the unemployment allowance the job seeker is entitled to. This does not apply to full-time work.</p>

Source: Authors' compilation of forthcoming reforms, Government's employment package.

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The involvement of social partners is and has been strong in Finland as regards issues and policies connected to the labour market. The involvement in law-making starts at a very early stage of preparation and also includes participation in the drafting of legislation (Jokivuori, 2013). The social partners are also themselves making proposals for reform. As regards the UI system, social partners are not only involved in decision-making but in addition also the administration of earnings-related unemployment benefits. It is also typical for Finland that some labour market reforms are first agreed in collective agreements, with corresponding reform of the legislation usually following if the government is in agreement. Consequently, also for the future in order to successfully carry out benefit reform support from the social partners is critical. It remains to be seen whether the reforms now planned by the government receive the necessary support.

***Excursus: Would a basic income make a difference for displaced workers?***

The rapid ongoing change in the labour market has raised demands to reform income security to better correspond to the changing world of work. Would a universal basic income be a response to the reform needs and help also displaced workers getting back to work quicker by improving incentives and removing unemployment traps? The introduction of a universal basic income has become a very topical issue in Finland. A basic income experiment is to be launched in early 2017 (see Box 3.2). This experiment should provide evidence on the impact of a basic income. How well and for whom a basic income would work depends entirely on the details of the regulation: the payment level, the eligibility criteria, and the extent to which other benefits are being replaced or abolished. At this stage, it is too early to say what the impact of a basic income could be for displaced workers but most likely incentives to return to work would be greater for those out of work for a longer period. The fact that the target group of the experiment has now been decided to be more limited than what was initially planned sets limitations in regard to which groups the findings can be generalised for.

### Box 3.2. The basic income experiment in Finland

In Finland a two-year basic income pilot study, one of the key projects in Prime Minister Juha Sipilä's Government Programme, will be launched in the beginning of 2017.

The purpose of the experiment is to find ways to reshape the social security system in response to changes in the labour market. The experiment aims to explore whether the basic income can be a solution to reduce poverty and social exclusion, improve incentives to work, and ease the bureaucracy as regards social benefits and taxation (STM, 2016). The preliminary study sought to identify a model for implementing the universal basic income experiment and ended up recommending an experiment of a partial basic income model (see Kangas and Pulkka, 2016). The partial basic income would replace all 'basic' benefits while almost all insurance based benefits (including UI) would be left intact. The minimum level of the partial basic income should not be lower than the present minimum level of basic benefits (EUR 550-600 a month). Students, pensioners and employed persons are left outside the experiment. The experiment's sample size is 2000 and the treatment group is selected among the recipients of basic unemployment allowance and labour market subsidy in December 2016.

According to Kangas and Pulkka (2016) a partial basic income would be a solution to many bureaucratic traps and social exclusions. However, it would not alone be able to eliminate all incentive traps as their elimination requires also reforming other parts of social security and taxation policy.

*Source:* Author's compilation

## Availability and effectiveness of re-employment support

Reducing the adverse impact of job displacement on the income of workers is an important policy goal. Adequate income support is one side of the coin, to be complemented by the provision of effective re-employment support for displaced workers. It is in the greatest interest of both displaced workers and the society as a whole to keep the time out of work short and prevent the manifold harmful consequences of long-term unemployment. Re-employment support is essential for workers who do not find a job again quickly and by themselves.

Internationally compared, Finland spends quite a lot on active labour market programmes. However, in the past few years the resources of the *Public Employment Service* (PES) have been reduced. Long-term unemployment has increased rapidly lately, posing demanding challenges to the PES. To prevent long-term unemployment and its consequences the share of unemployed jobseekers effectively activated should be increased.

Besides Change security and Change training possibly available at the notification stage (see Chapter 2), Finland has no special re-employment supports targeted to displaced workers. One of the consequences is that many displaced workers who are older or have lower education tend to receive less support than they would need to return to work successfully.

***Finland spends more on labour market programmes than most OECD countries but the PES is underfunded***

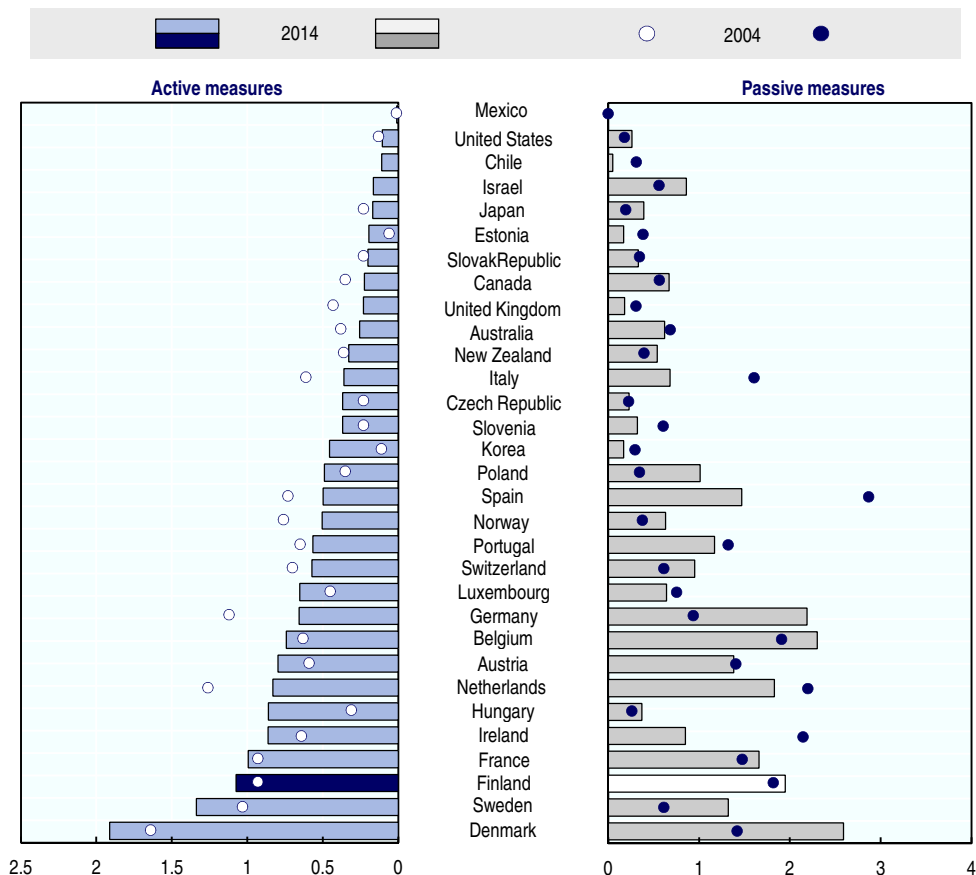
Public spending on active labour market programmes (ALMPs) is one indicator of the resources targeted to re-employment support. Data for 2014 show that Finland spends more on ALMPs than most OECD countries (Figure 3.7): ALMP spending was around 1% of GDP, the third-highest share in the OECD after Denmark and Sweden. Even taking into consideration each country's level of unemployment, spending on active labour market measures in Finland is relatively high (Figure 3.8).

While the composition of training available in Finland has changed over the years, as discussed later, the role of training as a whole is still strong. Training expenditure makes up half of Finland's ALMP spending during the past few years (Figure 3.9, Panel A). Finland has thus placed more emphasis on training as the main ALMP than other OECD countries (Figure 3.9, Panel B). The increase in the training expenditure coincides with the launch of the possibility to use unemployment benefit for self-motivated studies under certain conditions. This in principle should provide opportunities for displaced workers who need new skills to match the jobs available in the labour market.

In 2015, Finland spent EUR 208 million on *Labour Market Training* (LMT) provided free of charge to both workers and unemployed people (70% of participants are unemployed). Training is flexible and can in principle be organised very quickly. The aim is to improve vocational skills to facilitate returning to work or staying with the present employer, improve capabilities to act as an entrepreneur, and promote new business start-ups. Employment offices procure LMT from public and private providers.

Figure 3.7. **Finland spends more on ALMP than most OECD countries**

Spending on active (ALMPs) and passive labour market measures in 2014<sup>a</sup> and 2004, as a share of each country's GDP



Note: Countries are ranked in ascending 2014 active measures.

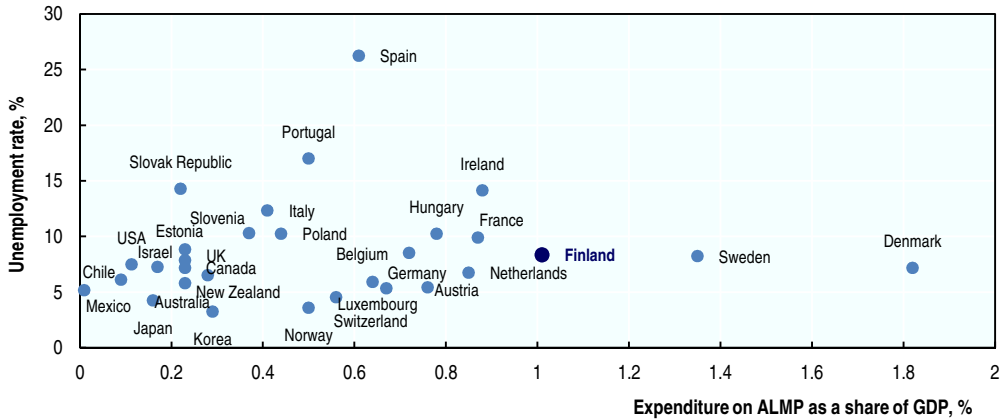
a) The data refer to 2011 for the United Kingdom and to 2013 Ireland, Poland and Spain.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

StatLink  <http://dx.doi.org/10.1787/888933426596>

Figure 3.8. **ALMP spending in Finland is high even when taking the level of unemployment into account**

ALMP spending on active measures as a share of GDP and the incidence of unemployment, 2014



Note: Data refer to 2011 for the United Kingdom and 2013 for Ireland, Poland and Spain.

Source: OECD Employment Database [www.oecd.org/employment/database](http://www.oecd.org/employment/database) and OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

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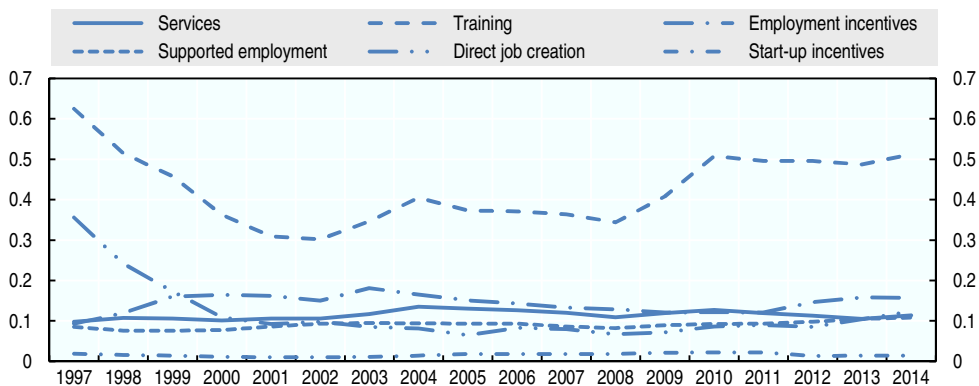
Other training possibilities include: i) on-the-job training targeting better-educated unemployed who will often be displaced workers, the aim being to stay with the new employer; ii) joint-purchase training co-financed with the employer, which can include Change training for foreseen redundancies; and iii) self-motivated education for up to 24 months for unemployed people (who receive unemployment benefit while in training).

On the strong side, training possibilities in Finland are comprehensive and training is flexible, but it can be quite random in terms of who gets what and how much training, thereby weakening the overall effectiveness. There is considerable autonomy for the education institutions which drive supply and might be slow in changing their courses in line with changing demand. According to a qualitative survey among displaced workers affected by the closing of Nokia's plant in Salo (forthcoming study), displaced workers strongly influence the type of training they have participated in. The initiative for the type of training came from the displaced workers themselves to a greater extent than from their PES counsellors.

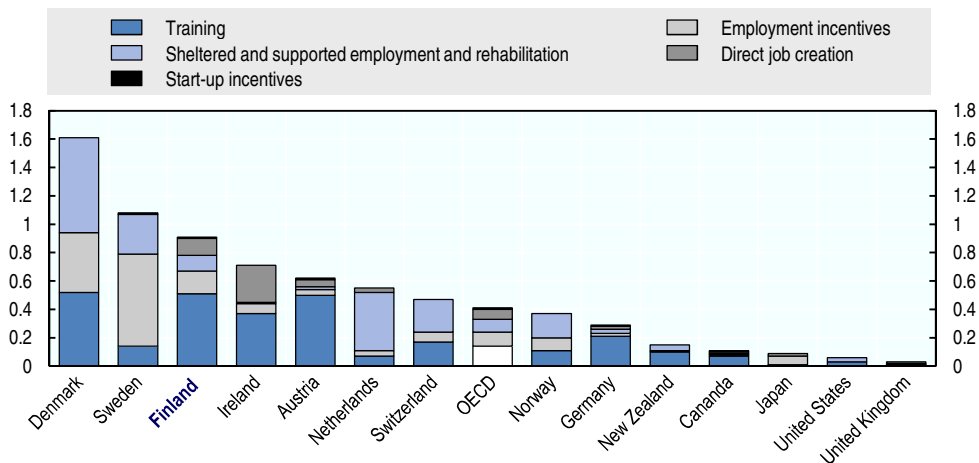
Figure 3.9. **The bulk of ALMP spending in Finland goes to training**

Public expenditure by the main type of ALMP as a share of GDP, 1997-2014 and comparison of ALMP expenditure by main category as share of GDP, 2014

**A. ALMP spending by main category as a share of GDP, Finland, 1997-2014**



**B. ALMP spending by main category as a share of GDP, selected countries, 2014<sup>a</sup>**



a) The data refer to 2011 for the United Kingdom and to 2013 for Ireland.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

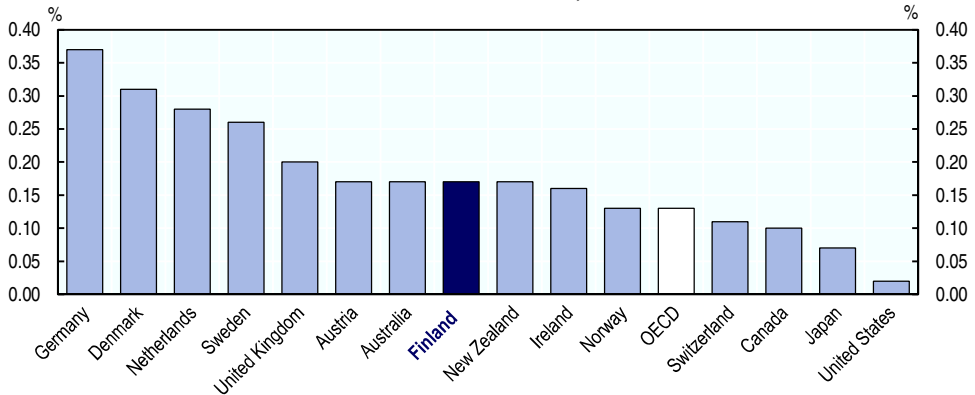
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### *The public employment service has undergone major reform*

The PES is an essential part of Finnish labour market policy and plays an important role in the implementation of ALMPs for displaced workers and other unemployed people. The central aim of the PES is to support the return to work of jobseekers. Therefore it is of great importance how well the PES functions and how much resources are targeted to its operation. Whereas spending on ALMPs in Finland is one of the highest among OECD countries, expenditure on PES operations is only slightly above the OECD average and smaller than in many other countries (Figure 3.10).

Figure 3.10. **The budget to run the public employment service is small in Finland relative to the budget available for active labour market programmes**

Public expenditure on public employment service administration as a share of GDP, selected OECD countries, 2014<sup>a</sup>



a) The data refer to 2011 for the United Kingdom and to 2013 for Ireland.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

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The Finnish PES has undergone a series of reforms during the past two decades (see Räsänen et al., 2012 and Aho and Arnkil, 2008 on the reforms and their impact). With the latest reform of the PES, in 2013, a new service model was adopted that is based on three service lines. Unemployed jobseekers are directed to one of three lines: i) employment and enterprise services to fill vacancies quickly (i.e. matching); ii) competence development services offering skills development which will often be critical for displaced workers struggling to find a new job; and iii) subsidised employment services for harder-to-place job-seekers.



Together with the service-line reform, two major changes came into force: first, the existing 74 administrative units of the PES were reorganised into 15 regional units and, second, a major shift towards provision of online services was set in place. Today, 15 regional ELY centres (Centres for Economic Development, Transport and the Environment), which receive national guidance and have a broader regional-policy mandate going beyond employment, provide guidance to the around 120 local PES offices. Ongoing efforts have been made to better integrate business services and labour market services and to bring them under one roof. Local PES offices are now called TE offices, better reflecting the emphasis on integrating economic and labour market policy.

In the past, Finnish employment services were characterised as a highly decentralised system with strong local emphasis. In recent years a reform process to recentralise the system has taken place with the aim to i) assure a harmonisation of nation-wide services; ii) improve the efficiency of service delivery; iii) react to changing demands of employers; and iv) better address the needs of disadvantaged workers (Weishaupt, 2014). In the coming years, PES services will again see a major institutional reform when, as of 2019, 18 autonomous regions – the counties – will take responsibility of employment and business services as part of a broader regional government reform. The current ELY centres and TE offices will cease to exist and the 18 counties will then take full responsibility for their tasks. An organiser-producer model will be applied in the provision of PES services. In this multi-provider model, counties would purchase services from public, private and third-sector providers. This is a major change and it will take a considerable period to put the new model in place. The impact of this reform on the quality and efficiency of services and the uniformity of services across the country remains to be seen.

Personal service needs of a jobseeker are the basis for the PES to get in action. The initial registration as an unemployed jobseeker is today almost always done online. According to identified needs, the customer will be guided to the most appropriate service line. The new service model implies that service needs are mapped more systematically at the intake (“profiling”). A statistical profiling tool is also available for the counsellors to estimate the likelihood for a jobseeker to become long-term unemployed but the use of the tool is at the discretion of the caseworker in the local PES office (Riipinen, 2011).

After registration, the PES has to organise the first interview for the jobseeker within two weeks to talk about education, skills, career plans, and training needs. Depending on service needs and the situation of the jobseeker, the interview is organised either in the TE office, by phone, or by remote access. In the initial interview the jobseeker and the PES counsellor

draw up an individual employment plan for the jobseeker and set the time frame for the next interview (Ministry of Employment and Industry, 2013). Typically, the second contact between the PES counsellor and the jobseeker takes place after three months to assess what has happened in the meantime and to update the employment plan (if necessary). Afterwards, direct contact is taken only every six months but the PES office will send relevant job offers, if any, during the entire period – the frequency will depend on the skills of the jobseeker, the number of adequate vacancies and the level of engagement of the employment counsellor, and could vary from one job offer per day to none at all for a whole month or longer. In the coming years, this model will be tightened in two ways: first, regular interviews at three-month intervals will be the norm throughout the unemployment spell (a budget of EUR 17 million will be made available to make this possible at the local level); and secondly, individual employment plans will become more binding, with stronger monitoring and stricter application of sanctions in case of violation of agreed obligations.

For displaced workers who accept a severance package and who therefore resign voluntarily from their job, the registration as an unemployed jobseeker is delayed; this can at the same time delay their re-employment support. This can be problematic given the fast-declining re-employment chances for displaced workers many of who would benefit from support straight after becoming unemployed or even during the notice period. In some recent collective dismissals (for example, Nokia) the importance of registering as jobseeker straight away has been recognised and highly recommended even for those displaced workers who have accepted a severance package.

### ***Shortage of operational resources weakens PES effectiveness***

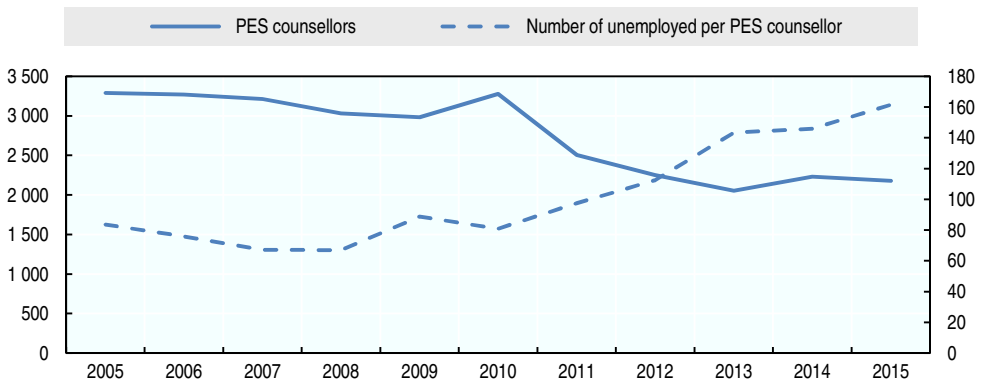
Depending on the service-line there are also significant differences in the access to personal services with face-to-face contact and in the extent of the use of online services. Online services can work well for job-ready clients but not for those in need of more comprehensive support and the competence to use online services may also place some unemployed jobseekers and older and low-skilled displaced workers especially in an unequal position.

According to Alakauhaluoma et al. (2016), the functioning of the PES has been weakened to some extent by the 2013 reforms. The service-line approach has increased the silo mentality in the sense that it has been difficult to combine services from different lines. Although the idea behind the new approach was that jobseekers should be able to combine services from different lines easily.

The same study also found that an important factor in the weakening of the PES has been the lack of resources. The shortage is partly the consequence of a reduction in the number of staff working in the TE offices as a result of the recent productivity programme and the PES reform. In 2015, the total number of PES counsellors was around 34% lower than in 2005 (Figure 3.11). With a simultaneous increase in unemployment, the number of unemployed per counsellor – the caseload per caseworker – has doubled during the past decade from about 80 to 160. This has meant that the customer approach in service provision has not improved or even worsened.<sup>7</sup> Recent research from Germany suggests that personal face-to-face counselling helps jobseekers to return back to work faster and thereby shortens the unemployment spell (e.g. Hainmüller et al., 2016).

Figure 3.11. **The number unemployed per employment counsellor has doubled in Finland during the past decade**

Number of PES counsellors and jobseekers per counsellor (caseload), 2005-15



Source: Ministry of Employment and Industry.

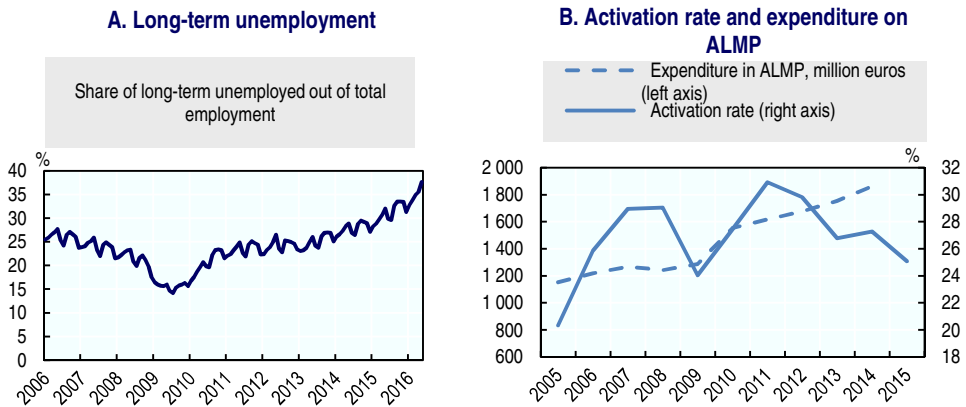
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### *The high share of long-term unemployed is a challenge for the PES*

The share of long-term unemployed people has been increasing rapidly in Finland ever since the beginning of the GFC in 2008 and particularly in the past three to four years and is now at a higher level than during the recession in the beginning of 1990s (Figure 3.12). Many of these long-term unemployed are displaced workers. This poses a very demanding challenge on the PES. To tackle the increase in long-term unemployment and its harmful consequences the share of jobseekers activated effectively should be increased. On the contrary, however, the activation rate has continuously decreased ever since 2011 – from 31% in 2011 to 25% in 2015 – at the same time as the number of long-term unemployed jobseekers has gradually increased (Figure 3.12).<sup>8</sup> The expenditure on ALMP has grown after the beginning of the financial crisis in 2008 but not as much as would have been necessary to manage the increase in unemployment effectively. In part this increase is explained by an increase in training expenditure coming with the new possibility to use unemployment benefit for self-motivated studies.

Figure 3.12. **The modest increase number in ALMP spending could not keep pace with the increase in long-term unemployment in the past five years**

Long-term unemployment (share of total unemployment), ALMP spending (million euros) and people in activation measures (share of total unemployment), 2006-15



Source: Eurostat (Panel A) and Ministry of Employment and Industry (Panel B).

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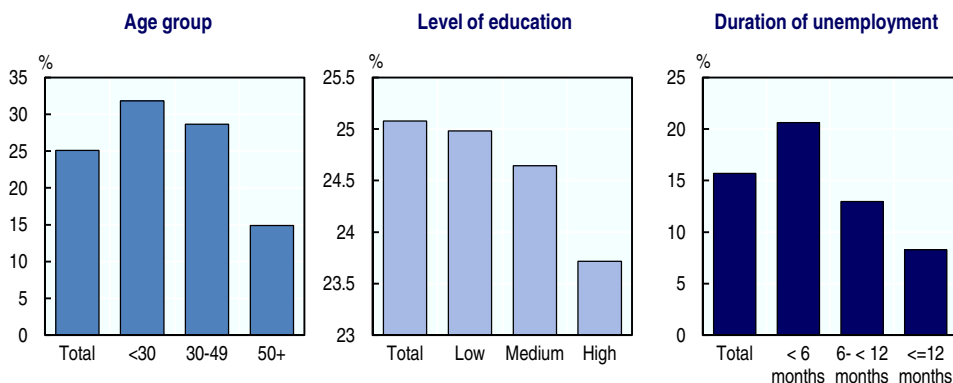
According to the Ministry of Employment and Industry's URA database of displaced workers whose unemployment started in 2015, 18.6% moved into an ALMP during the same year. The corresponding share for other unemployed people whose unemployment started in 2015 was significantly

higher than this, 23%. It is to be noted that these figures are not the *official* activation rate which is calculated in Finland as the share of ALMP participants divided by the sum of the number of unemployed and the number of ALMP participants.

Official activation rates show considerable differences by jobseeker characteristics, such as age and educational level. The activation rate of young unemployed was 31.8% in 2015, over twice the activation rate for unemployed aged 50 or more (Figure 3.13). The high activation rate for the young is partly related to the youth guarantee which offers everyone under the age of 25 as well as recent graduates under the age of 30 within three months after becoming unemployed either a job or a study place or a place in on-the-job training or in rehabilitation.

Figure 3.13. **Older and long-term unemployed are least likely in Finland to be in an active labour market programme**

Activation rates of jobseekers by age, educational level and duration of unemployment (jobseekers in ALMP in per cent of jobseekers and ALMP participants), 2015



Note: Education levels refer to: Low (ISCED 0-2), Medium (ISCED 3-4), High (ISCED 5-8).

Source: Ministry of Employment and Industry.

StatLink  <http://dx.doi.org/10.1787/888933426651>

Older unemployed jobseekers are significantly underrepresented among ALMP participants. While constituting 36.5% of all unemployed, the share of jobseekers over age 50 among all ALMP participants was only 19% in 2015. This is unfortunate because the older unemployed are on average a more disadvantaged group as they tend to find it harder to return back to work after they have lost their jobs and suffer from longer unemployment spells compared to younger age groups.

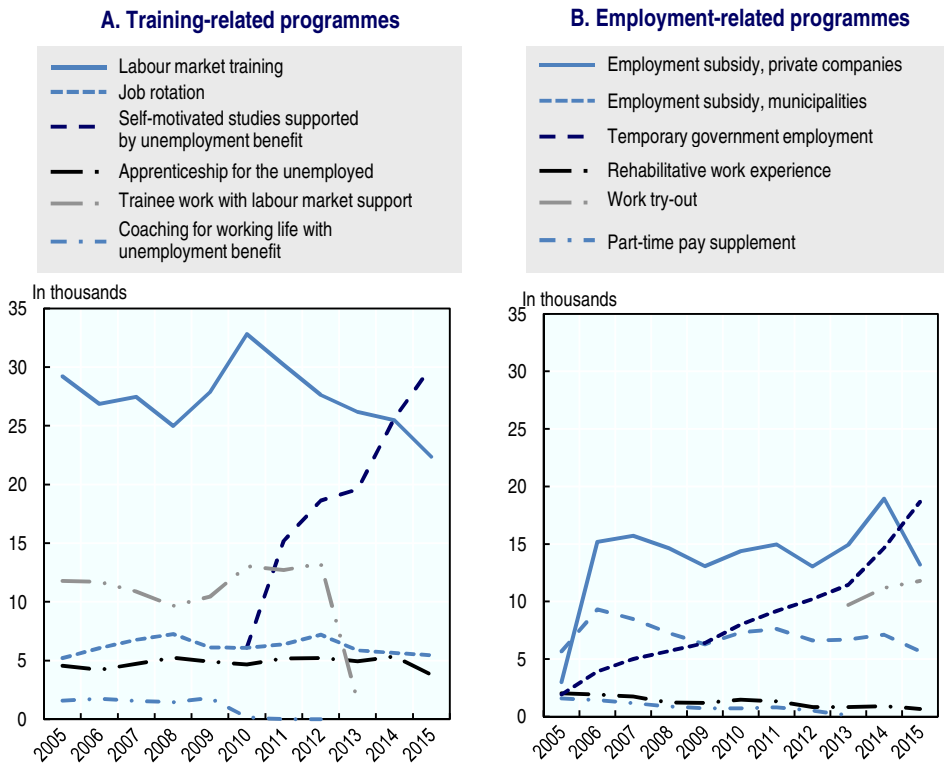
Across educational levels of jobseekers, the activation rates are quite similar. In contrast, activation rates differ by the duration of unemployment: the rate is much higher for jobseekers at the beginning of their unemployment spell and lowest for the long-term unemployed. This can be considered as a good thing insofar as early identification and early intervention are key elements in improving the effectiveness of activation measures and preventing unemployed people from moving to stigmatising long-term unemployment (Duell, 2012). However, it may also mean that long-term unemployed in Finland are locked in unemployment, with little chances to ever move out. And it could also indicate that displaced workers who accepted a package and only register as jobseeker a long time after their job loss are less likely to be in an activation measure.

### ***The contents of ALMP has changed over the years***

Also the distribution of ALMP interventions has changed in Finland in the past ten years. The change, especially in recent years, has been characterized by a greater emphasis on ‘lighter’ (and therefore cheaper) measures such as rehabilitative work experience and work try-out at the same time as long-term unemployment has been increasing (Figure 3.14). It has not always been the case that the type of ALMP offered has matched with the needs of the jobseekers (Räisänen, 2016). From 2009 onwards, there was a significant increase in the participation in self-motivated studies supported by the jobseeker’s unemployment benefit. At the same time participation in subsidised employment in the private and public sector and in LMT has decreased.

Figure 3.14. **The nature of ALMPs has changed in Finland in the past decade**

Participants in ALMPs by type of programme, 2005-15



Source: Ministry of Employment and Industry.

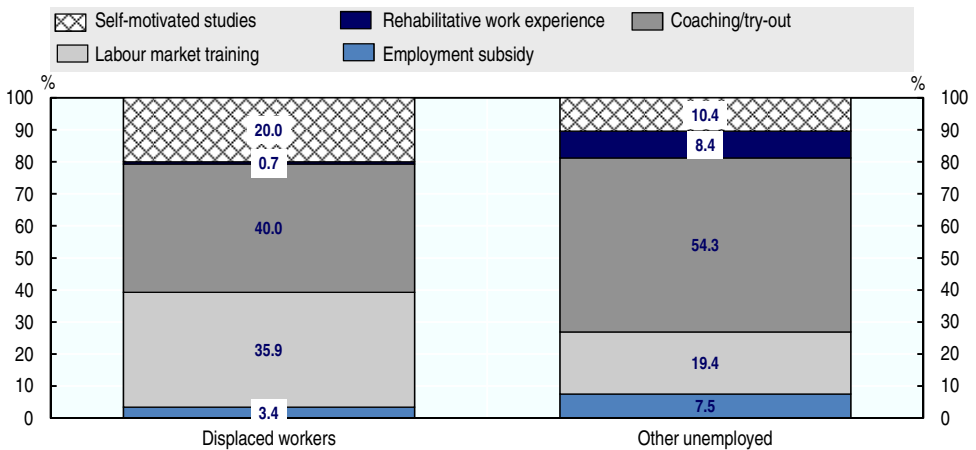
StatLink  <http://dx.doi.org/10.1787/888933426669>***Displaced workers participate more in training than other unemployed***

The only special support measures available for displaced workers in Finland are Change security and Change training (see Chapter 2). In addition, some of the packages that firms offer to their workers in the displacement process include outplacement and retraining measures. Apart from these, there are no other special ALMP measures available for displaced workers in Finland. To what extent the statistical profiling tool is used as a help in profiling of displaced workers at intake also seems to depend much on the local PES caseworkers.

However, there seem to be some differences in the type of general ALMP measures displaced workers participate in compared to other jobseekers. According to the URA database, displaced workers who started their unemployment in 2015 on average participated more in training measures – both LMT and self-motivated studies – than the group of other unemployed (Figure 3.15). The difference might be explained by the different characteristics of these two groups.

Figure 3.15. **More labour market training and more self-motivated studies among displaced workers compared with other unemployed in Finland**

Participation in ALMPs of newly displaced workers and other newly unemployed, distribution across programmes, 2015



Source: Ministry of Employment and Industry (URA database).

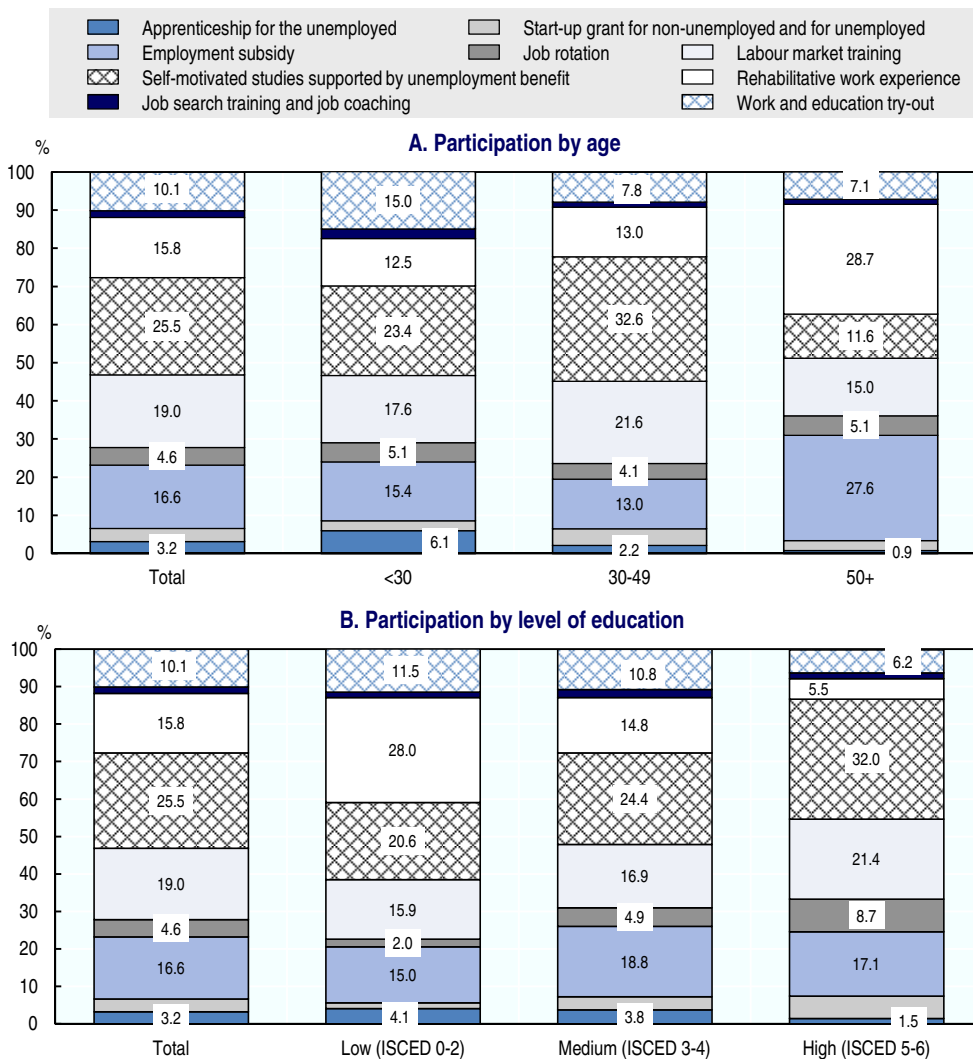
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ALMP intervention also varies with other jobseeker characteristics. The largest difference in the type of intervention exists between older and younger unemployed. In 2015, the share of older unemployed participating in rehabilitative work experience<sup>9</sup> was twice the share among young unemployed (Figure 3.16, Panel A). At the same time the share of older unemployed in training is smaller and the share in subsidized employment is somewhat larger.



Figure 3.16. **Older and low-skilled unemployed in Finland, if activated, participate less often in training programmes**

Participation in ALMPs by age and level of education, distribution across programmes, 2015



Source: Ministry of Employment and Industry.

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There are also differences in the distribution across types of ALMP by skills level. High-skilled unemployed participate considerably more in training measures (with a share over 50%) compared to medium and low-skilled unemployed (Figure 3.16, Panel A). Low-skilled unemployed jobseekers, on the other hand, participate more in rehabilitative work experience and in work and education try-out compared to the more educated unemployed.

It seems that low-educated and older unemployed participate more in lighter ALMP measures such as rehabilitative work experience that have not proved to be very effective in getting participants back to work in the open labour market (see below on programme effectiveness). For example, of all participants in rehabilitative work experience the share of low-educated was 46.5% (compared to their share in all measures equal to 26.3%) and the share of older unemployed was 35% (compared to their share in all measures equal to 19%). The use of lighter and less costly types of ALMP in combination with a lower activation rate for older jobseekers partly explains why re-employment support is less effective for this group in terms of employment outcomes.

### ***Not all ALMP interventions help unemployed back to work to the same degree***

Finland measures the effectiveness of ALMPs by coding employment outcomes in the open labour market three and six months after the end of a programme. Available data suggest that the type of ALMP intervention makes a big difference. The most effective ALMPs seem to be vocational LMT, self-motivated studies financed with unemployment benefit, and job rotation (Figure 3.17, Panel A). Available follow-up studies, however, do not provide any evidence on the causal impact of an intervention (see Box 3.3).

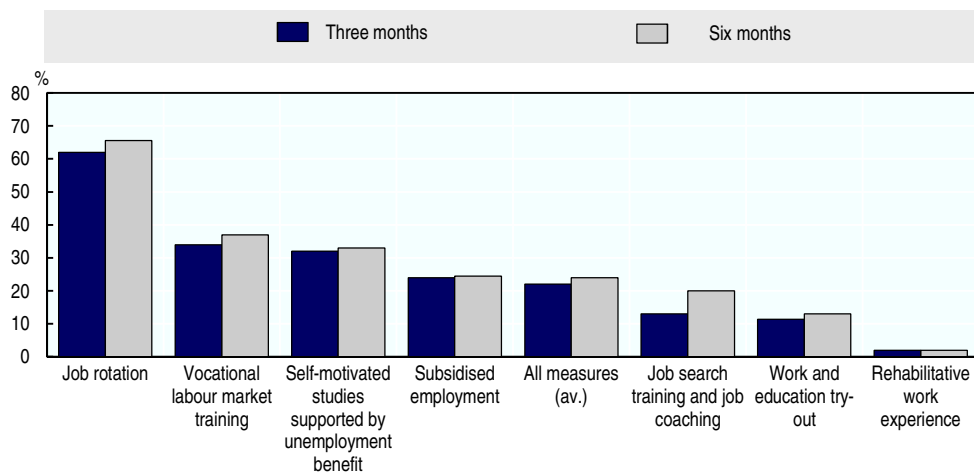
In 2013, the share of participants in vocational LMT employed three months after the end of the programme was 34%, compared with 32% for participants in self-motivated studies and 63% for participants in job rotation. The least effective measures from the perspective of helping people back to work were rehabilitative work experience (employment outcome 2.4%) and work and education try-out (employment outcome 12%). The shares rise slightly when looking at the employment outcomes after six months.

Almost without exception employment outcomes are better for the higher-educated unemployed (Figure 3.17, Panel B). By age, employment outcomes after ALMP participation are poorer for older unemployed almost regardless of the type of measure. Moreover, the differences in employment outcomes across programmes have remained rather stable over time.<sup>10</sup> But from 2011 to 2013, all programmes saw a drop in the post-programme employment outcomes.

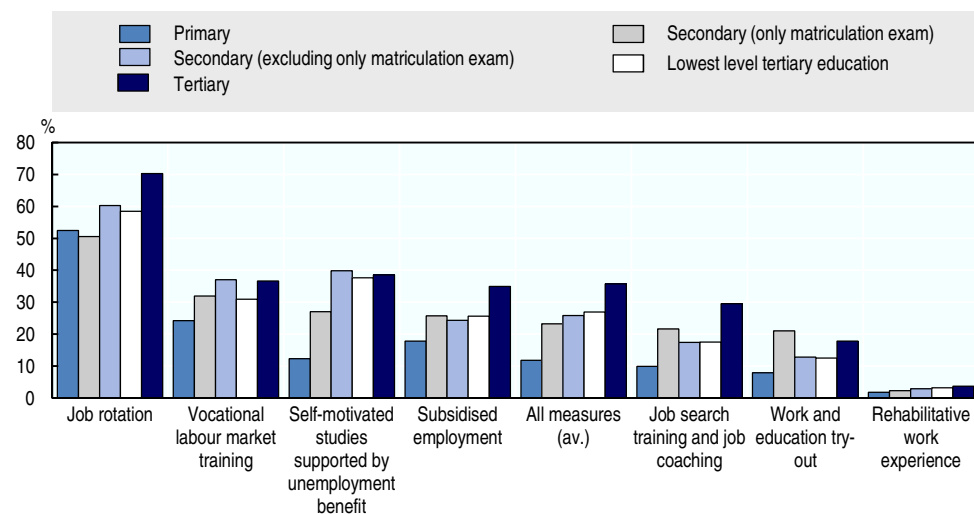
Figure 3.17. **Post-programme employment outcomes depend on characteristics of both the unemployed and the activation programme**

Share of programme participants in employment three and six months after the end of the programme by programme and by level of education, 2013

**A. Participants in employment three and six months after the end of the programme**



**B. Participants in employment by level of education by programme**



Source: Maunu, T. and P. Sardar (2015), “Työvoimapolitiikan palveluilta sijoittuminen vuonna 2013”, *TEM-analyseja* 67/2015.

StatLink  <http://dx.doi.org/10.1787/888933426699>

### Box 3.3. About the causal employment impact of ALMP measures

Rigorous evaluation of the effectiveness of ALMP measures for the participants implies studying what the causal impact of the participation for the subsequent employment outcome. Ideally, it would be good if, in addition to such micro-level evaluation, a macro-level evaluation for non-participants and a cost-benefit analysis for programme use could be carried out.

Card et al. (2015) provide a recent meta-analysis of the causal impact of ALMPs for the participants from over 200 empirical studies from different countries. Evidence from this meta-analysis show that the effectiveness and the time profile of impacts depends very much on the type of programme. *Work first* type job-search assistance and sanctions or threat programmes tend to have larger short-term effects, whereas human capital-style training and private sector employment subsidies have larger benefits in the medium or longer run. Public sector employment programmes have negligible or negative programme impacts at any time horizon. The effectiveness also varies by the characteristics of the participants such as gender, age and duration of unemployment. Results from Finland as regards the effectiveness of different types of ALMPs (e.g. Aho and Kunttu, 2001; Kauhanen et al., 2006; Hämäläinen and Tuomala, 2006) have been in line with the results found for other countries.

There is also evidence from earlier research from different OECD countries that ALMPs tend to be more effective during recessions e.g. partly due to the smaller lock-in effects (e.g. Forslund et al., 2011; Andersen and Svarer, 2012).

Very little research is available on the effectiveness of ALMPs for displaced workers. Available research suggests that LMT can help a displaced worker (in particular if low-educated or older) to increase their human capital which benefits them in their future labour market career. But the positive impacts show only in the longer run (see e.g. Jacobson et al., 2005; Eliasson and Storrie, 2006; and Ohlsson and Storrie, 2007).

*Source:* Author's copilation

In addition, there are also significant regional differences with better employment outcomes, unsurprisingly, in regions with lower unemployment rates. But the correlation between the local unemployment rate and the share employed after programme participation varies by measure. The strongest correlation has been found between subsidised employment and the local unemployment rate. Finally, nearly half of all ALMP interventions in Finland last less than three months, but it is the longer-lasting measures that have proved to help people back to work more effectively (all evidence taken from Maunu and Sardar, 2015).

Overall, there is too little focus by the employment service in Finland on actual employment outcomes delivered by an employment or training programme. Neither is there sufficient evidence available on the

effectiveness of a measure, nor is there a stronger focus on promoting successful and eliminating unsuccessful programmes and providers. In such circumstances, paying service providers for the results they achieve rather than service they deliver could make a big difference. Such an approach, in Finland also discussed as “smart buying of services”, could have multiple advantages: it could reduce service costs and free resources for other, operational costs; and it could price poorer providers out of the market and thereby increase service effectiveness and efficiency.

New performance-based procurement models for employment services offered by private providers have already been tested in Finland during 2015 by the TE offices in two regions (Helsinki and Tampere area). The aim was to assess the functionality and the effectiveness of results-based funding models. While the pilots were a learning process for both the TE offices and the service providers, the results are encouraging: they increased the likelihood of employment at least for certain client groups. Better results were due to the service providers’ field expertise and better connections to employers. The low volume and short duration of the trials do not allow far-reaching generalisations but justify further trials and bigger efforts to maximise the efficiency and effectiveness of services.

### ***Recognition of skills acquired on the job could help displaced workers***

According to Kurvinen et al. (2015), educational background is a very significant factor that influences subsequent employment opportunities for displaced workers over 45 years of age. Displaced workers aged 45-55 who had no formal vocational education or only secondary-level formal education ended up more often in long-term unemployment or inactivity in the form of a disability pension.

Many displaced workers who have no formal vocational education have achieved considerable occupational skills through often quite long work experience. For those people one way to improve subsequent employment opportunities would be a formal recognition of skills acquired on the job. Such *Recognition of Prior Learning* (RPL) has been used in some countries, like Australia, as an established assistance programme for displaced workers (OECD, 2015). RPL provides a mechanism for national education, training and employment stakeholders to grant formal recognition, through the awarding of qualifications, of vocational knowledge and skills gained on-the-job or through other informal learning experiences.

In Finland, introducing RPL should be possible in the competence-based qualification system without any further training. The competence-based qualification system has been used since 1994. The system recognises

competencies acquired in a variety of ways. Vocational upper secondary qualifications, further and specialist vocational qualification can all be completed as competence-based qualifications. A competence-based qualification is completed by demonstrating vocational skills at workplaces in actual work tasks, as defined in the requirements for a competence-based qualification (Finnish National Board of Education, 2014). The impacts of competence-based qualification on the individuals' further labour market outcomes have been positive (e.g. Kangasniemi et al., 2011).

Every year, around 30 000 people (34 144 in 2012) have completed a competence-based qualification and for one-fifth of them this has been a LMT measure (Statistics from the Finnish National Board of Education). For displaced workers with skills achieved on the job, RPL through a competence-based qualification should be more systematically proposed to and organised for displaced workers, by the PES.

## Conclusions and recommendations

Recent research has shown that re-employment chances of displaced workers depend on the economic situation of a country (Jolkkonen et al., 2012). During the economic recession it is now more difficult for all types of displaced workers to get back to work. But due to technical change and globalisation the structure of labour demand has also changed and jobs that are being created in the Finnish economy today do not necessarily match the jobs that are being destroyed – not in terms of skills required nor in terms of their regional distribution. Other research has also demonstrated the pervasiveness of job polarisation in Finland, with growing employment shares in high-skill, high-wage and low-skill, low-wage occupations and declining shares of middle-wage routine occupations (Böckerman et al., 2014; Asplund et al., 2011; Maczulskij and Kauhanen, 2016).

This type of change in the structure of labour demand is a problem for a subgroup of displaced workers. It is a big challenge especially for older displaced workers to transition into new jobs successfully. This issue needs to be given more attention and priority. Employment services in Finland have little focus on displaced workers who have in many cases never been unemployed before and their particular needs which are often quite different from those of harder-to-place jobseekers, for example. For the most part, the mainstream labour market programmes are asked to deliver, except for the Change security approach discussed earlier. This implies that core rules and regulations must be adjusted to serve this client group in a more efficient and more effective way.

Recent international research has also highlighted the key role of personal face-to-face counselling in helping jobseekers in their return back to work, thereby shortening unemployment spells. Although there is considerable focus and spending in Finland on the provision of ALMPs, especially on LMT, total public expenditure on PES counselling and administration relative to the country's unemployment benefit spending is at a relatively low level. Due to the government's productivity programme and the 2013 PES reform, resources available to the PES have been reduced despite increasing levels of unemployment. A special challenge is to shift PES resources so to lower the caseworker-customer caseload and to enable the PES to use more resources for more and earlier face-to-face contact with a jobseeker to develop an employment plan, monitor progress and adjust the support provided as necessary. Policy priorities should also be strengthened towards older and low-skilled displaced jobseekers who seem to have less access to ALMPs compared to other groups and who find it more difficult to return to employment.

Major institutional restructuring forthcoming in 2019 when counties will become fully responsible for employment matters and the procurement of services will not change the general problem the system is facing: too little operational resources coupled with a large menu of active labour market programmes many of which are expensive but provide weak employment outcomes. More needs to be done to strengthen the management of the system and lower the caseload of employment counsellors while at the same time improving the effectiveness of services. Planned institutional changes can be a step in the right direction.

Long-term unemployment has alarmingly increased in Finland during the recent and still ongoing recession and has already reached a higher level – close to 40% – than during the recession in the early 1990s. Earlier research has shown how the consequences of long-term unemployment are more severe for affected individuals. In order to prevent the increase in long-term unemployment and its harmful consequences, the share of long-term unemployed activated should be increased. It would also be important to assure that caseworkers use the new profiling tool available to estimate the risk of long-term unemployment and act upon the result i.e. provide services and training earlier to displaced workers at risk of long-term unemployment and inactivity.

Re-employment support and ALMPs provided by the PES must reach displaced workers, also those who accept negotiated packages, without any long delay. Now it may be the case that the re-employment support comes too late. ALMPs first and foremost should contribute to making displaced workers fit for new jobs available in the labour market. To this end one should also invest in the evaluation of training programmes and employment

interventions, e.g. by setting aside a certain share of total programme costs for the assessment of employment outcomes, as is done in Germany.

The challenge for the unemployment benefit system is to provide income security without jeopardising work incentives. Poverty estimates for Finland suggest that despite high benefit coverage unemployed people are three times more likely to face a low-income risk than wage and salary earners. This suggests there is limited room to lower benefit levels. Good work incentives for beneficiaries are therefore better achieved through stricter job-search and programme participation requirements and more effective monitoring of the job-search behaviour of displaced and other unemployed people. Recent reform in this direction is welcome but more can be done. Further benefit reform could include experiments that use part of the passive benefit payment as an incentive to return to work faster.

A balanced reform package will eventually allow tackling the situation of older displaced workers. The special unemployment tunnel leads to very early labour market exit, currently from age 58 onwards, and the tunnel will get longer and be used more often again when the impact of recent pension reform will unfold. Ideally this group should face the same opportunities and protection as all other workers. Alternatively, if the government chooses to maintain some of the special treatment of older workers by the benefit system, the resulting extra costs should to a much larger degree be shifted onto employers dismissing older workers.

## Notes

1. There are some special requirements for young recipients of a labour market subsidy: 18-24 years-old unemployed jobseekers are eligible for labour market subsidy only if they have vocational qualifications or if they have applied for at least two training or education places every year.
2. Extended unemployment benefit can be paid for a period of 90 days if the unemployed person has lost his/her job due to economic and production-related reasons, his/her working career has lasted for at least 20 years, and he/she has been a member of an unemployment insurance fund for at least five years.
3. In the taxonomy of social security systems Finland has traditionally been classified with other Nordic countries to the Nordic model for which a comprehensive welfare state with an emphasis on transfers to households and publicly-provided social services is typical (Esping-Andersen, 1990, 1996). The comprehensive welfare state also shows in the income security UI benefits provide although there have been cuts and tightening in the UI schemes in the Nordic countries as well (Røed et al., 2007).



4. It is good to remember that from an income security point of view both relative income maintenance and absolute income levels are relevant. Even high replacement rates may leave households below the poverty line if they are poor while in work (Heady and Immervoll, 2004).
5. Poverty rates describe the share of those unemployed whose household's equalised disposable income (excluding income from sales) is below 60% of the median national equalised disposable household income. The poverty rates presented here are calculated from the income distribution statistics service data from year 2013.
6. Due to the unemployment tunnel, many firms (especially larger ones) have displaced more often older workers who are eligible for extended unemployment benefits. Hakola and Uusitalo (2005) showed that raising the costs of unemployment pensions for larger firms reduced the number of transitions into unemployment.
7. See also Arnkil (2014) about the functioning of PES reform in connection with two other major reforms.
8. The so-called activation rate gives the share of ALMP participants over the sum of unemployed jobseekers and ALMP participants.
9. Rehabilitative work experience is especially targeted to the long-term unemployed (see e.g. Sandelin, 2014).
10. For some ALMP measures such as self-motivated studies supported by unemployment benefit there is no data available from several years as this measure was not available for the unemployed until recently.

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## Back to Work

# FINLAND

## IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Job displacement (involuntary job loss due to firm closure or downsizing) affects many workers over their lifetime. Displaced workers may face long periods of unemployment and, even when they find new jobs, tend to be paid less and have fewer benefits than in their prior jobs. Helping them get back into good jobs quickly should be a key goal of labour market policy. This report is part of a series of nine reports looking at how this challenge is being tackled in a number of OECD countries. It shows that Finland has a higher rate of job displacement than most OECD countries but that most of these workers find a new job again relatively quickly. However, those who do not face a considerable risk of long-term unemployment; with older displaced workers and those with a low level of education facing the highest risk. While labour market institutions in Finland serve most displaced jobseekers well, there is room to improve policies for those at risk of long-term unemployment or inactivity who would benefit from earlier identification of their problems and early, effective and well-targeted counselling and intervention.

### Contents

- Chapter 1. Job displacement in Finland and its consequences
- Chapter 2. Prevention of job displacement in Finland and early interventions to promote job-to-job transitions
- Chapter 3. Mainstream income support and employment services and their effectiveness for displaced workers in Finland

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