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**The Finnish Labour Market Institute for Economic Research
and
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INTRODUCTION

This report provides an account of the labour market in Finland. It was produced for the European Commission, DG V (Directorate-General for Employment, Industrial Relations and Social Affairs) by the Finnish Labour Institute for Economic Research, who carried out the research and drafted the report, which was edited by ECOTEC Research and Consulting Ltd. At the Labour Institute for Economic Research, the report was written by Dr. Tuire Santamäki-Vuori in co-operation with Ms. Silve Parviainen, M.Sc.

This study is one of a series of reports covering all the fifteen member states. Their aims are to take stock and analyse labour market developments in the EU in order to inform employment policies in the light of the conclusions of the Essen Summit:

- the promotion of investments in vocational training
- the increase in the employment-intensiveness of growth
- the lowering of indirect wage costs
- the increase in the effectiveness of labour market policy
- the strengthening of measures for groups particularly affected by unemployment.

The report is structured in six sections, as follows:

- Section 1 provides an analysis of the labour market situation in Finland. It examines the background to the labour market by considering: demographic trends; the structure of the workforce; trends in job creation, job loss and wages and salaries; and the causes of unemployment.
- Section 2 describes the main labour market institutions, including public employment services, collective wage bargaining and employee participation systems.
- Section 3 examines labour market legislation. This section includes a discussion of employment protection schemes, regulations on working time and minimum wages.
- Section 4 describes Finland's labour market policies, in terms of both active and passive measures. Implementation of active measures by public bodies is discussed and the range of existing active labour market policy measures are described. This section concludes with an evaluation of good practice in active measures.
- Section 5 presents an overview of other policies which have an impact on the labour market and which are not discussed in Section 4. The discussion includes, therefore, macro-economic policies, policies on education and training, taxation and social security and industrial policies.

The final Section places the discussion in the report in the context of the national debate in Finland. This Section examines current debate in the areas of macro-economic policy and conditions, income taxation, deregulation of the labour market and work sharing. A short summary of the report is presented before Section 1.

SUMMARY

The labour market context

In Finland, the 15-64 working age group grew by 5% from 1980 to 1995. Overall, population growth has been attributed to natural growth, or the excess of births over deaths (4.7 million in 1980 and 5.1 million in 1995). The excess is falling, however, and by the year 2013, the number of deaths is expected to exceed that of births.

Since the early 1980s, migration into Finland has also contributed to population growth. The number of foreign citizens was about 70,000 at the end of 1995, compared with approximately 15,000 in the mid-1980s.

Evidence shows that the growth in the population is accompanied by an ageing of the population. Until recently, the working age proportion of the population was relatively high. However, the proportion of people aged under 25 in the working age group (15-64 years) declined from 23% in 1980 to 18% in 1995.

Projections of the labour force also reflect the general ageing of the population. It is predicted that almost 30% of the labour force will be aged over 50 in 2005, compared to 20% in 1995.

Economic recovery and growth is polarised with rapid growth in exports and industrial production and a modest revival in domestic consumption. Overall, employment growth has been slow. There has been concern about the slow reduction of the unemployment rate and about the prospect of jobless growth in the economy.

This, together with concerns about the growth of female unemployment, are contributing to a debate about the need for a more balanced growth across all sectors of the economy. The role of wages, indirect labour costs, value-added taxes and personal income taxation as contributory factors to increases in demand in the private service sector has been widely acknowledged.

The labour force participation rate of young people dropped sharply during the recession of the early 1990s, although recent data show an improvement in the rate. The labour market position of low-skilled workers has been worsening relative to those with higher skill levels. Workers with basic education tend to have lower labour force participation rates and higher unemployment rates.

Unemployment rose dramatically from 3.4% in 1990 to a peak of 18.4% in 1994. Hitherto, Finland's unemployment rate had been below the OECD average. A large proportion of the rise in unemployment can be attributed to the increase in the recurrence of spells of unemployment and, in particular, to the lengthening of unemployment periods. Average periods of continuous unemployment rose from 15 weeks in 1990 to 45 weeks in 1995.

The unemployment rate started to fall in Finland in 1995, although long-term unemployment is projected to continue rising. The proportion of unemployed people who have been unemployed for 12 months or more has risen from 3% in 1990 to

almost 30% in 1996. Economic recovery is not, therefore, removing the problem of long-term unemployment.

Labour market institutions

Finland's network of public employment offices is a branch of the Ministry of Labour. There are 13 regional labour districts and 183 local employment offices. Public employment services include: job placement; vocational guidance; labour market training; information on training and occupational choice; and vocational retraining. Until 1994, there was a public monopoly of employment services provision, although permits could be granted to private associations for job-placement services. Private provision of the range of employment services is now permitted, although there has been little take-up by the private sector.

Traditionally, the Finnish Labour Market has been highly organised. The right to organise is safeguarded by the Constitution and the right to bargain collectively is guaranteed through a system of collective agreements, based on legislation. The extent of unionisation among wage-earners has grown during the last few years, in line with the increase in unemployment. The high unionisation rate may also be related to the fact that membership fees are tax deductible and that the unions are involved in the administration of unemployment insurance.

Collective bargaining amongst labour market organisations is not governed by statutory regulations. In practice, negotiations begin with central organisations producing an agreement on the general principles. This provides the framework for subsequent negotiations at the union level, which are aimed at producing collective agreements. Talks on implementing the agreements are then held at workplaces.

Collective agreements prescribe the minimum terms to be observed in all employment contracts. An employer bound by a collective agreement is required to observe the provisions in respect of non-unionised workers, unless they have specific exclusion, under the terms of the agreement. If a nation-wide, universal collective agreement applies in a given sector, the agreement is automatically extended to unorganised employers in that sector. The main function of a universally binding collective agreement is to give workers in non-organised enterprises the same minimum employment conditions as enjoyed by organised workers. Collective agreements cover more than 90% of employees. The proportion covered via extensions based on universal validity has been estimated at about 20%. In the service industry, in particular, there are sectors with no universally binding collective agreements to guarantee minimum terms of employment.

The main challenge for the Finnish unions in the next few years is to adjust their bargaining strategies to a target of low inflation. This is not easy within the multi-level bargaining structure. It is feasible that within the constraints set by collective agreements, there will be more firm-specific arrangements related to performance pay schemes, profit sharing, work organisation and training. In the European context, the main question will be whether the labour market organisations will find it advisable to co-ordinate their actions on a national or on an international level. At

this stage, it is not clear what direction the unions and employers' organisations will take.

Labour market legislation and policies

Employment protection in Finland traditionally has been developed co-operatively by employers' and employees' representatives and the State. New legislation has often been drawn up on the basis of case law, although in recent reforms intended to relax employment protection, the Government has adopted a more proactive stance.

Total labour market policy expenditure averaged 2.5% of GDP from 1985 to 1991. It reached almost 7% in 1993 and 1994, as a result of the rise in unemployment. However, expenditure on passive measures, adjusted for unemployment, declined between 1990 and 1993. Expenditure on active measures accounted for 25% of total labour market expenditure in 1993 and 1994, despite the expressed target of resorting more to active than to passive measures.

Among Finland's passive measures are unemployment benefit schemes based on both insurance and assistance principles. There was a major change in 1985, when both insurance benefit and the basic allowance became liable to tax and insurance benefit became earnings-related. In 1994, basic unemployment allowance was changed with the introduction of a qualifying condition relating to employment record and a maximum payment duration. Importantly, new labour market support was introduced for people who are not eligible for the benefits or whose benefits have been exhausted.

In May 1996, the Government submitted to Parliament proposals for reform of unemployment benefit schemes. Extensive changes are planned, to be implemented from the beginning of 1997. The changes include extensions of qualifying conditions for the benefit and no index adjustments to the level of benefits in 1997-1999. These reforms are aimed at improving the functioning of the labour market and at making savings in unemployment expenditure. The changes also make the distinction between active and passive measures less clear-cut.

In addition to the unemployment allowance, there is also an unemployment pension scheme, which is intended to provide income security for long-term unemployed people aged 60-64 who have received unemployment allowance for the maximum period.

A new impetus was given to active labour market programmes by the 1987 Employment Act. The Act reinforced the policy emphasis on young and long-term unemployed people. In addition, the Act was intended to balance regional discrepancies so that unemployment in any district would not be dissimilar to the country average. Statutory obligations to arrange training or work for young and long-term unemployed people were lifted in 1993, although such groups continue to be the main targets for active labour market policy measures.

In the early 1990s, there was a doubling of active labour market policy measures. However, the coverage of the measures decreased substantially, since there was a

large increase in the number of unemployed job-seekers. The overall coverage of active measures among all unemployed people fell from more than 30% in 1988-1990, to less than 20% since 1992.

The role of active measures in terminating spells of unemployment has remained fairly stable, hovering between 22% and 25% of total terminated spells. Due to differences in employment prospects in the normal labour market and the priority given to young and long-term unemployed people when targeting active measures, the importance of active measures in terminating unemployment spells varies across different groups of unemployed job-seekers.

Macro-economic policies

The Government, appointed in April 1995, set itself the objective of halving unemployment (i.e. to 9% by 1999) and turning central government indebtedness into decline by the end of its four-year election period. Strong competitiveness and lower real interest rates were considered to be essential preconditions for sustained economic growth and a permanent reduction in unemployment. The austerity measures which had been implemented by the previous Government were maintained and new expenditure cuts totalling FIM 20 billion, or 3.5% of GDP, were agreed by the new Government.

In September 1995, the Council of State adopted the Finnish convergence programme describing the measures necessary to satisfy the criteria for monetary union. Some of the Government's targets, such as public finances and the halving of unemployment, are more demanding than the criteria of the convergence programme itself. At this time, Finland was projected to have good prospects of satisfying all the convergence criteria within the next few years. It was anticipated that general government net lending would be balanced and indebtedness would stabilise as soon as 1996. As to labour market performance, the unemployment rate was expected to be down to 12.5% in 1999. The Government's objective of halving unemployment would require a further fall of 100,000 in the number of unemployed people.

However, since the beginning of 1996, economic conditions have been less favourable. Short-term economic projections for 1996 and 1997 have also been less optimistic. Despite this, the preconditions for faster growth in years to come do exist: real interest rates have fallen, prices are competitive and household indebtedness has decreased, allowing a revival in the housing market, for instance. Economic growth is generally expected to rebound in the latter half of 1996. This is based largely on a similar scenario of the gradual speeding-up of economic growth in the EU. Despite slower growth, the current account will be in surplus, the general government deficit is falling, inflation is extremely low, the long-term incomes agreement should keep prices down for the next few years and the floating of the markka has not prompted any major turbulence in interest rates.

The fact that economic development has been less robust than expected means, however, that the public budget deficit will not be reduced as fast as originally

planned. Even so, the government economy will go on improving, and in 1997 the general government financial deficit will probably be one of the lowest in the EU.

It is clear that the poorer economic outlook will result in few positive labour market developments. The slow fall in unemployment means that the problem of long-term unemployment has become more serious. Some 10% of the labour force can now be counted as long-term unemployed, if the figures include recurrent unemployment interrupted by short-term periods of work or traineeship. The need to reduce long-term unemployment has become a priority for all structural policies designed to promote job creation.

Education and vocational training policies

The number of students in education has increased sharply, so that in the early 1990s enrolment rates were almost four times those of 1960. Currently, over 90% of young people continue in upper secondary education and nearly 60% of the relevant age group qualify for a place at university. Such increases have acted as a buffer against the impact of the deteriorating position of young people in the labour market.

There has also been a considerable increase in adult education. Almost 3% of the adult population attend open university and about 25% make use of liberal education institutes. Vocational training is encouraged through a study leave system, which provides people with a financial contribution from the state for their studies. New starts in long-term self-motivated vocational training tripled between 1989 and 1993, although recent cuts in adult study grants has led to lower participation in such training in 1995.

Overall, the volume of adult training has been regarded as inadequate to meet ever increasing needs. There has been a tendency for training to accumulate among those with the best qualifications. This group of people also has the highest expressed need for additional training. The mismatch between expressed need and actual participation in training is greatest among those with lower educational qualifications. This may be taken as an indication of hidden willingness to undertake further education, in particular among the least educated people. To provide equal opportunities for adequate adult training, a discussion about regular training under a kind of study insurance scheme has recently been raised.

It was proposed by the government that starter places in basic and further training (including apprenticeship training) should be increased by 33,000 in 1994 and that the number of starter places would exceed the initial level by 34,000 in 1995.

However, the implementation of the proposals was delayed and the targets have not been attained. Nevertheless, the aim to increase the number of training places has not been abandoned; on the contrary, it forms a vital part of the multi-annual employment programme, which was prepared for the meeting of the European Council in December 1995.

Higher education and research is regarded as a vital part of Finland's development strategy. According to the long term objectives, universities and polytechnics will

cater for 60-65% of the age group. The policy concerns in education are expansion of the scope of programmes, provision of multi-disciplinary learning and wider choice for individuals. The main aims in the near future are the flexibility of the educational system as a whole, the development of evaluation systems and widening the use of pathways. A system of lifelong learning is to be created, where educational modules are approved as part of a qualification.

Tax and benefit

The gross tax rate, or total taxes per GDP, in Finland is not high, although income taxation is one of the highest in the EU. Action has been taken to reduce the rate of income taxation and, in line with the 1995 incomes policy settlement, the government intends to continue to reduce income taxation in 1997.

There have been temporary reductions in the employers' share of unemployment insurance expenditure, with the corresponding increase in the central government share financed by a special unemployment tax.

There has been concern about incentive traps. Proposed measures to tackle the problems include alleviation of the taxation of small amounts of earned income, alleviation of means-testing in unemployment benefits with respect to earned income, as well as changes in the schemes for support care for small children. Efforts have also been made to identify any remaining inequalities in entitlement to social security depending on the form of employment; in the existing schemes, thresholds either on working hours or earnings may place atypical forms of employment at a disadvantage in terms of annual or sick leave and employment pension.

Industrial policies

The government intends to promote competitiveness based on innovations, research and development, skilled labour and high standards of environmental protection. The creation of new jobs in SMEs and service enterprises is an important goal. The government is also committed to promoting job-creation in recycling and other areas of environmental protection. Self-employment will be supported by promoting service co-operatives. Active industrial policy also concerns state-owned companies, which will be partly privatised. However, the state will retain its majority ownership in some companies that are vital for the nation's energy supply. The value of State property amounts to FIM 120 billion, of which FIM 50 billion is in equities. Parliament has empowered the authorities to sell equities up to FIM 25 billion.

The multi-annual employment programme spelt out policies to enhance entrepreneurship and encourage local initiatives. The national productivity programme, which was launched in 1993 to raise productivity by developing the quality and flexibility of working life, will continue until spring 1999. A similar programme was introduced in 1996, with a focus on the development of skills and innovations based on local initiatives. The latter involves research-driven development within enterprises in co-operation with universities and research institutes. Its core features are the development of multi-skilled work and teamwork in organisations capable of using networking methods. Finally, an action programme

for developing the information society was initiated. Its aim is to provide all citizens with the basic skills and technical opportunities to use the services of the information society.

The national debate

There are four aspects which characterise the national debate about the labour market in Finland:

- Macro-economic conditions.

Recently, the domestic economy has improved - interest rates have fallen, the current is in surplus, budget deficits are decreasing, inflation is low and household indebtedness has fallen. However, weak international developments, including the unexpected halt in economic growth in Europe, have resulted in slower than expected domestic economic growth.

- Easing of income taxation.

The government has decided that fiscal consolidation should be achieved without any increase in the overall level of taxation. Capital and corporate tax rates were raised from 25% to 28% in 1996 and an easing of the taxation of earned income was initiated in 1996, through a reduction of employees' social insurance fees. The government has agreed similar reductions in 1997 and 1998, although scope for further shifts in the structure of taxation seem to be quite limited.

- Further reforms and, in particular, deregulation in the labour market.

Most of the recommendations aimed at increasing labour market flexibility involve the removal of existing constraints that are thought to worsen the functioning of the labour market. Eliminating negative influences - rather than accentuating positive ones through training, mobility or active labour market policies - has, therefore, become the basis for improving the operation of the labour market.

- Work-sharing, as a means of increasing flexibility and employment.

As employment trends show improvements, the idea of work sharing is becoming more popular. The hitherto voluntary basis of such arrangements has led to tensions, although this means that a more prescriptive approach can now be adopted.

1 ANALYSIS OF THE LABOUR MARKET SITUATION

1.1 Demographic trends

1.1.1 Size and structure of the population, 1980-1995

There are two principal determinants of population size: demographic factors such as birth and death rates; and migration. From 1980 to 1995, the 15-74 age group grew by 6% (223,000 people) and the 15-64 age group by 5%. The Finnish Labour Force Survey categorises people aged 15 to 74 as part of the working age population, since many self-employed people continue to work beyond the normal pension age. In 1995, the labour force participation rate among those aged 65-74 years was 3%, accounting for 13,000 people in the labour force. In the remainder of this document, unless otherwise stated, labour market figures refer to the 15-74 age group.

Population growth has mainly been attributed to natural growth, that is the excess of births over deaths by some 15,000 people annually. The difference has steadily narrowed, however, and from the year 2013 onwards, the number of deaths is projected to exceed that of births (Ministry of Labour, 1996a).

The total fertility rate has remained fairly stable during the past twenty years or so, fluctuating between 1.6 and 1.85. The natural renewal of the population would require a total fertility rate of 2.1. By European standards, the fertility rate is quite high, although clearly lower than Ireland or Sweden. The difference in the total fertility rate compared to the EU average seems to be attributed to differences in family size rather than differences in the proportion of childless women. Moreover, unlike most other countries, there has not been a downward trend in the Nordic countries. Except for women under 25, the age-specific fertility rates have actually risen (Komiteanmietintö, 1995).

Given the high educational level and high participation in full time work among Finnish women, the relatively high fertility rate is quite striking. There is some evidence that until the 1990s, generous family support (at 4.3% of GDP in 1991) may have partly offset the declining birth rate that tends to accompany higher educational and income levels amongst women (Ilmakunnas, 1994).

In any event, the decline in the number of births from over 100,000 during the post-war baby-boom years (1946-1949), to about 60,000 at present implies that the population is ageing. Developments in the size of population by age and gender are shown in Table 1¹. Until recently, the structure of the population has been advantageous in the sense that the proportion of the groups of prime working age has been quite high, and that of older people has been low. The gradual ageing of the population is also shown in the age structure of those 15-64 years. The proportion of people under 25 in the total working age population (here, aged 15-64) declined from 23% in 1980, to 18% in 1995.

¹ Further background statistics on population, employment, unemployment and labour force participation rates are given in the Annex (Tables A1 to A6).

Table 1: Developments in the size of the population by age and gender, 1980-1995

	1980	1985	1990	1995
Total population (1,000)	4788	4911	4999	5116
Breakdown by age				
Aged 0-14	967	953	965	978
Aged 15-24	761	722	645	631
Aged 25-54	2011	2107	2210	2266
Aged 55-64	469	511	505	511
Aged 15-64	3241	3340	3360	3408
Aged 65-74	378	368	385	431
Aged 75-	196	246	280	297
Aged 65-	579	614	670	730
Aged 0-14 and 65-	1546	1567	1635	1708
Breakdown by age, %				
Aged 0-14	20.2	19.4	19.3	19.1
Aged 15-24	15.9	14.7	12.9	12.3
Aged 25-54	42.0	42.9	44.2	44.4
Aged 55-64	9.8	10.4	10.1	9.9
Aged 15-64	67.8	68.1	67.3	66.7
Aged 65-74	7.9	7.5	7.7	8.4
Aged 75-	4.1	5.0	5.6	5.8
Aged 65-	12.1	12.5	13.4	14.2
Aged 0-14 and 65-	32.2	31.9	32.7	33.3
Breakdown by gender, % females	51.7	51.6	51.5	51.3

Source: Statistics Finland, Population Statistics.

Traditionally, net migration has tended to diminish the population of Finland, pronounced by particularly high emigration to Sweden at the end of the 1960s that was particularly strong. Since the early 1980s, migration flows have become positive and, as in many European countries, migration has contributed significantly to population growth. In the early 1990s, net immigration ran at about 9,000 per annum, although foreign citizens or the foreign-born population makes up just 1-2% of the total population. This masks a rapid increase, such that the number of foreign citizens was about 70,000 at the end of 1995, compared to 15,000 in the mid 1980s.

1.1.2 Developments in the labour force, 1980-1995

The labour force participation rate - the ratio of the labour force to the population of working age - exhibits a procyclical variation, so that labour force participation increases in economic upswings and decreases during recessions. In addition to demographic factors, changes in the labour force participation rate have strongly affected developments in the labour force, especially during the deep recession in the early 1990s.

The labour force grew in the 1980s by more than 100,000 people, but in the recession years the sharp drop in the labour force participation rate of young people diminished the labour supply to a large extent (Table 2). Despite the increase of more than 100,000 people in the working age population during the period 1990-1995, the labour supply in 1995 was almost 60,000 less than at the beginning of the recession. The ageing of the population is reflected in the age distribution of the work force as a substantial rise in the proportion of the prime-age group 25-54; in the 1990s, the shift was strengthened by the cyclical drop in youth labour force participation. Otherwise, the composition of the work force remained fairly stable. Women have accounted for 47-48% of the total work force during the whole period from 1980 to 1995.

Table 2: Developments in the labour force by age and gender, 1980-1995

	1980	1985	1990	1995
Labour force (1,000)	2442	2566	2555	2497
Breakdown by age, %				
Aged 15-24	17.2	15.6	14.0	10.4
Aged 25-54	71.9	73.7	76.9	79.9
Aged 55-64	9.4	9.7	8.4	9.2
Aged 65-74	1.6	1.0	0.7	0.5
Breakdown by gender, % females	46.7	47.9	47.4	47.5
Percentage changes		1980-1990		1990-1995
Aged 15-24		-14.8		-27.7
Aged 25-54		+12.0		+1.6
Aged 55-64		-6.5		+6.5
Aged 65-74		-50.0		-31.6
Total		+5.6		-2.3
Females		+6.9		-2.1
Males		+4.4		-2.4

Source: Statistics Finland, Labour Force Survey.

A few regional aspects are also worth noting (Annex, Table A13). Firstly, the growth in labour supply in the 1980s was greatest in Uusimaa, the southernmost province of Finland which includes the Greater Helsinki area. Secondly, mostly due to inter-regional migration, the decline in the labour supply in the early 1990s took place in all areas except Uusimaa. The proportion of the total labour force based in Uusimaa has increased, to 29% in 1995.

1.1.3 Labour force projections, 1995-2005

According to the latest report on Finland's long-term employment prospects compiled by the labour administration, the population aged 15-64 will peak towards the end of the next decade, amounting to a total increase of 70,000 by the year

2010 (Ministry of Labour, 1996a). The basic population scenario is based on the present fertility rate, net annual immigration of 2,000 people (less than during the past ten years on average) and a slight rise in average life expectancy. The projected decrease in the number of children under 15 is offset by an equivalent rise in the number of older people aged 65 or more. The overall proportion of children and old-age pensioners is projected to remain unchanged, at around 33% up till 2010.

Table 3 shows projected changes in the structure of the labour force up to 2005. The projections are conditional on economic developments and any changes in social welfare policy. As to economic activity, the basic labour force scenario is based on the assumption that the unemployment rate will decrease from 17.2% in 1995 to 13.0% in 2000 and further to 10.4% in 2005. According to this scenario, the labour force will initially increase slightly - up 2% by 2005, but decrease thereafter as a result of the ageing of the population (which tends to reduce the average labour force participation rate). In comparison to the base year 1995, age-specific labour force participation rates are projected to increase, however. This holds for both women and men. Despite the expected fall in the relative size of the public sector, which has traditionally employed more women than men, the growth of care and other services in the private sector is projected to provide female jobs. As a result, it is expected that the demand for female labour will grow.

Irrespective of the detailed quantitative projections, however, significant changes in the age structure of the labour force are obvious, as the number of those over 50 years of age will increase rapidly - by 45% in the basic scenario. Almost 30% of the total work force will be over 50 in 2005, compared to 20% in 1995.

Table 3: Projected developments in the supply of labour (1,000 people), 1995-2005

	1995	2000	2005	Change 1995-2005	
				1,000	%
Population:					
Aged 15-64	3409	3455	3473	+64	+2
Aged 15-74	3839	3888	3915	+77	+2
Aged 15-24	631	657	647	+16	+3
Aged 25-39	1120	1036	982	-138	-12
Aged 40-49	841	783	754	-87	-10
Aged 50-54	305	424	392	+87	+29
Aged 55-64	511	554	698	+187	+37
Aged 65-74	430	433	442	+12	+3
Labour Force					
Total	2497	2541	2555	+58	+2
Aged 15-24	259	288	295	+36	+14
Aged 25-39	972	906	863	-109	-11
Aged 40-49	771	712	678	-92	-12
Aged 50-54	253	352	331	+78	+31
Aged 55-64	229	265	369	+141	+62
Aged 65-74	14	16	19	+5	+36
Breakdown by age, %					
Aged 15-24	10.4	11.3	11.5		
Aged 25-39	38.9	35.7	33.8		
Aged 40-49	30.9	28.0	26.5		
Aged 50-54	10.1	13.8	13.0		
Aged 55-64	9.2	10.4	14.4		
Aged 65-74	0.6	0.6	0.7		

Source: Ministry of Labour (1996)

1.2 Structure of the workforce

1.2.1 Labour force participation

Labour supply is linked with variations in labour demand. This was particularly striking during the deep recession in the early 1990s. The deterioration of the relative labour market position of young people led to a sharp drop in their labour force participation rate (Table 4). The fall in this supply of labour was related to several factors: fewer students worked whilst studying; the number of starter places increased; and studies continued for longer periods. The number of full-time students increased by 74,000, or by 30%, from 1989 to 1994.

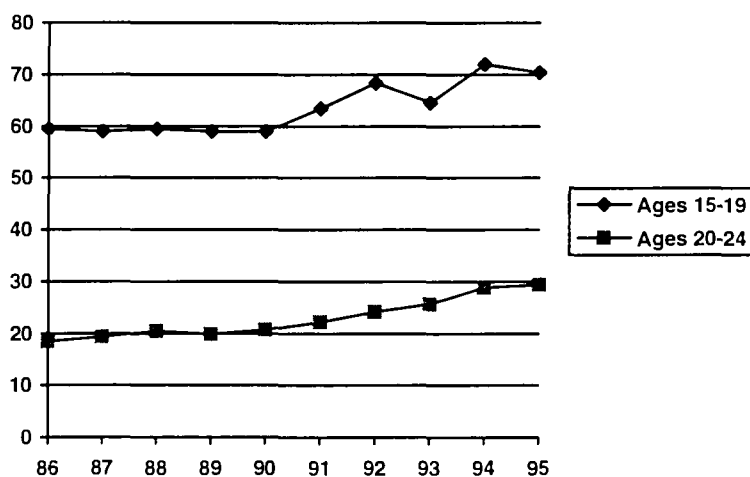
Table 4: Developments in the labour force participation rates by age and gender, 1980-1995

	1980	1985	1990	1995
Aged 15-74	67.5	69.2	68.4	65.1
Aged 15-24	54.8	54.9	55.0	41.0
Aged 25-54	87.5	90.2	89.6	88.2
Aged 55-64	49.3	48.7	42.4	44.6
Aged 65-74	10.0	7.1	4.8	3.0
Aged 15-64:				
All	74.3	76.1	75.7	72.9
Females	69.3	73.1	72.5	70.0
Males	79.3	79.1	78.9	75.6

Source: Statistics Finland, Labour Force Survey.

Chart 1 shows the proportion of teenagers and young adults (aged 20-24) who are students. The increase in the proportion of students in the population is almost a perfect mirror-image of the decrease in the labour force participation rates of young people. Withdrawal from the labour market for other reasons, e.g. for domestic work, was therefore negligible.

Chart 1: Proportion of the population who are students (not in the labour force) in the younger age groups, 1986-1995



Source: Statistics Finland, Labour Force Survey.

With the exception of cyclical fluctuations, the average labour force participation rate has remained stable over the past 15 years. Table 4 shows that about two thirds of those aged 15-74 and three quarters of those aged 15-64 are part of the labour force, either employees or unemployed. The breakdown by age and gender shows some underlying changes, however. Women's participation rate has grown slightly and early retirement has diminished the participation rate, particularly among older men. The overall labour force participation rate has remained high and stable mainly as a result of the increased participation rate of middle-aged women, the

increase in general educational attainments, as well as the increased proportion of prime-aged groups of working age.

The labour force participation rate for men, particularly older men, is lower than the EU average. As in other Nordic countries, women's labour force participation is very high. Since the 1970s, the entry of women into the labour market has been encouraged and facilitated by a number of social policy measures. These include: the 1976 shift from joint to separate taxation of spouse's income; extensions of maternity and parental leaves; changes in maternity allowances in 1982; increasing the number of child day-care places; and introducing child-care leave in 1985. Some of the schemes - like the child-care leave scheme - result in lower labour force participation during the leave, but in the longer run they improve the possibility of combining a career with family responsibilities. These initiatives were motivated by production needs, as well as the Nordic welfare state principle that care and other welfare services should be provided by the public sector. In 1995, women accounted for 47% of the total labour force.

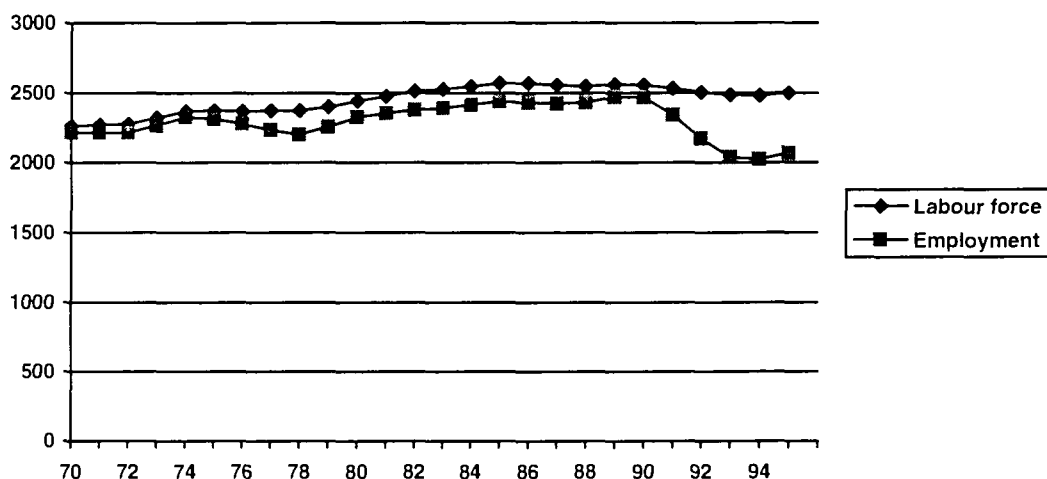
Finnish women under 50 have a higher level of education than Finnish men, if the proportion of the population with at least an upper secondary education is used as a criterion. Among women under 40 years of age, the proportion of those with a tertiary educational qualification is higher than that of men. For both men and women, the disparities in educational attainment are very large across age groups - the biggest in the OECD countries in 1991 (Statistics Finland, 1994). The percentage of Finns aged 55-64 with an upper secondary or tertiary qualification (30%) was below the average (38%) for the OECD countries. The corresponding figure for young Finns aged 25-34 was 80%, which was much higher than the OECD average (66%).

The more favourable labour market position of better educated people is also shown in their relatively higher labour force participation rates. This difference is most obvious in the prime-aged (25-54) group. In 1994, the labour force participation rate in this age group was 93% for those with higher education, compared to 84% for those with a basic education (Statistics Finland, 1995a).

1.2.2 Size and composition of employment

In the long run, developments in labour supply and labour demand tend to be linked (Chart 2). In the 1980s, the growth in the labour force by more than 100,000 was associated with a similar growth in employment. In the early 1990s, the collapse of output swept away nearly one fifth of jobs. The recovery in production began during the latter half of 1993, but the upturn in employment took place almost a year later. Despite the economic upswing, the number of employed people in 1995 was about 400,000 less than in 1990, when the boom turned abruptly into a deep economic crisis.

Chart 2: Labour force and employment (1,000s), 1970-1995



Source: Statistics Finland, Labour Force Survey

Industrial structure has changed greatly during the past few decades and sectoral patterns of employment exhibited some exceptional features during the recession. A striking feature of the 1970s was the relative stability of the industrial (manufacturing and construction) share of total employment, even though employment in agriculture and forestry fell, while that of services rose. Finland was then one of the few countries in Western Europe in which the industrial share of total employment actually increased, hovering around 35% of the total. In most countries, the decline in the years after 1975 was quite substantial.

The decline in the share of the secondary sector started in the early 1980s, and thereafter the employment structure became more typical of Western European economies. By the mid 1990s, the share of the tertiary sector (services) amounted to nearly two-thirds of the total (Table 5). Even though the number of people working in the primary sector declined by 50% from 1980 to 1995, they still accounted for about 8% of all employment in 1995, which itself is more than in most other Central or Northern European countries.

Unlike most cyclical downturns, substantial job losses were experienced in all branches during the economic crisis. Even though job losses started in the manufacturing and construction sector, the service sector accounted for half of the number of total job losses in the early 1990s. An upward trend in total employment began in mid-1994. During the economic upturn, jobs have increased most in manufacturing where the rapid growth of output started first and where the output level exceeded that of the previous cyclical peak (by 16% in 1995). In 1995, employment increased in almost all branches, except for finance, insurance and agriculture.

Table 5: Sectoral distribution of employment (1,000 people), 1980-1995

	1980	1995	% Change		% Share
			1980-1990	1990-1995	1995
Total employment	2328	2068	+6	-16	100.0
Primary Sector	314	158	-34	-24	7.6
Secondary sector	803	574	-5	-25	27.8
Industry	627	454	-11	-18	22.0
Construction	176	120	+16	-41	5.8
Tertiary sector	1201	1328	+25	-11	64.2
Trade	328	300	+20	-24	14.5
Transport and communications	184	158	-3	-11	7.6
Finance, insurance, real estate and business services	127	208	+87	-8	10.1
Public, social and personal services	562	662	+22	-3	32.0

NB: The classification of industries is SIC 1979 for 1980 and SIC 1988 for 1990 and 1995. The discontinuity of the time series concerns mainly the division between trade, business personal services and personal services. In 1989, the difference of the new and old classification was +19,000 in trade, +40,000 in business services and -62,000 in personal services.

Source: Statistics Finland, Labour Force Survey.

Changes in the sectoral structure of employment have been related to a fall in the numbers of self-employed and unpaid family workers, as well as to a rise in public sector employment (Table 6). As local government has largely been responsible for both the availability and the production of welfare services, such as social, health and educational services, the growth in these services has been reflected in the growth of public services. This expansion paved the way for women to enter the labour market, since women have long taken the majority of jobs in services. In 1995, women's share of local government employment was 75%.

According to the Labour Force Survey, public sector employment accounted for 30% of total employment in 1995. Since part of this is accounted for by public utilities (un-incorporated enterprises), which are included in the business sector, the appropriate public sector share of total employment was somewhat lower in the National Accounts, 25% in 1994. This figure was the lowest of the Nordic countries, but much higher than the EU average. However, great caution is necessary in comparing the figures of the Labour Force Survey and National Accounts. The level of employment in National Accounts is about 5% lower than in the Labour Force Survey. The difference is most marked in respect of the numbers of self-employed and entrepreneurs, since the National Accounts classifies owners of small joint-stock companies who work in the company as employees, whereas the Labour Force Survey counts such people as self-employed (for details, see Rytkönen, 1995).

Table 6: Distribution of employment by status and by type of activity (%), 1980-1994

	1980	1990	1994
Self-employed	14.7	12.9	13.1
Employees	85.3	87.1	86.9
Business sector	78.0	75.3	71.6
Public sector	17.8	21.9	25.1
Other*	4.2	2.8	3.2

* Other sector covers non-profit institutions and household services.

Source: Statistics Finland, National Accounts.

There is strong and persistent occupational sex segregation (Annex, Table A14) which has affected the incidence of employment, adjusted by gender, during the recession. Initially, labour losses in manufacturing and construction industries gave rise to heavy job losses for men. However, an early recovery in the exports sector restored manufacturing jobs first. Redundancies in both private and public services followed later and their recovery has taken place later than in male-dominated sectors. Last year, the relative increase in men's employment was 3.5%, but just 0.7% in women's employment.

1.2.3 Patterns of work

(a) Part-time work

The number of regular annual hours is fairly low in Finland, but in other respects the intensity of working is high. There is plenty of overtime work, but little part-time work. Moreover, the share of part-time jobs in total employment has remained fairly stable during the past fifteen years. In 1995, about 8% of all employed people and 11% of employed women worked fewer than 30 hours per week in their main job. If the cut-off point of 35 hours were applied, the proportion of part-time work would obviously be higher, amounting to 14% in 1995. Some 65% of those engaged in part-time work were women.

Part-time work is heavily concentrated in trade and in the hotel and catering industry, where employees tend to prefer full-time jobs. In general, involuntary part-time work increased substantially during the recession. In autumn 1993, 46% of workers on part-time schedules were doing so involuntarily because of a lack of full-time job opportunities (Annex, Table A9). On the other hand, one in every five full-time employees - some 322,000 people - would rather have taken a part-time job if it had been available at a pro-rata rate of pay, although most of them (247,000 people) would have wished to take it only temporarily. On balance, the combined effect of these factors is such that employees prefer more extensive part-time job opportunities, even though the mismatch of actual and preferred schedules is presently quite pronounced. In the EU countries, where on average 30% of employed women and 4% of men work part-time, the preference is for full-time jobs.

(b) Fixed-term employment contracts

Some 14% of employees were employed on fixed-term contracts in 1993, the percentage being clearly higher in the public than in the private sector (Annex, Table A10). By international standards, fixed-term contracts have been exceptionally common in Finland. To some extent, temporary contracts have been the result of the large and increased volume of subsidised job schemes designed to help unemployed people into employment, while institutional arrangements such as child-care leave and study leave have also encouraged the recruitment of supplementary personnel on temporary contracts.

Fixed-term contracts have been more common among young people. This has affected the incidence of cyclical labour adjustments. At the turn of the 1990s, the proportion of young people working on fixed-term contracts was approximately three times that of adults. This caused redundancies to be targeted at young people and was one contributory factor in the drastic deterioration in the relative labour market position of young people during the recession years (Annex, Chart A1). The number of employed young people fell by 50% in total, while the corresponding drop was 13% for adults aged 25-74.

In the early 1990s, patterns of labour use seem to have changed significantly, with a greater reliance on fixed term contracts in hiring new staff. Most terminated employment contracts come to an end within a year. Furthermore, the proportion of new contracts which are arranged on a fixed-term has traditionally been many times the proportion of all contracts which are fixed-term. Although changes in the characteristics of current contracts have thus far been moderate, changes are more pronounced in new contracts. In 1993, 60% of new contracts were fixed term, while in 1989 the corresponding figure was 39%.

Some indication of more recent developments during the upturn is provided in the Working Conditions Barometer (Ylöstalo and Kauppinen, 1995; Ministry of Labour, 1995). The data refer to changes that have take place in the workplace of the employee rather than in the position of the individual. Responses from autumn 1994 suggest that during the preceding 12 months, new employees had been recruited on temporary contracts in 14% of workplaces and on permanent contracts in 12% of workplaces. Along with the economic revival, the figures were higher in autumn 1995; 36% for temporary contracts and 29% for permanent contracts. Obviously, both types of contract could have been used in the same workplace. It is worth noting, however, that there was little change in the relative use of the two types of contract.

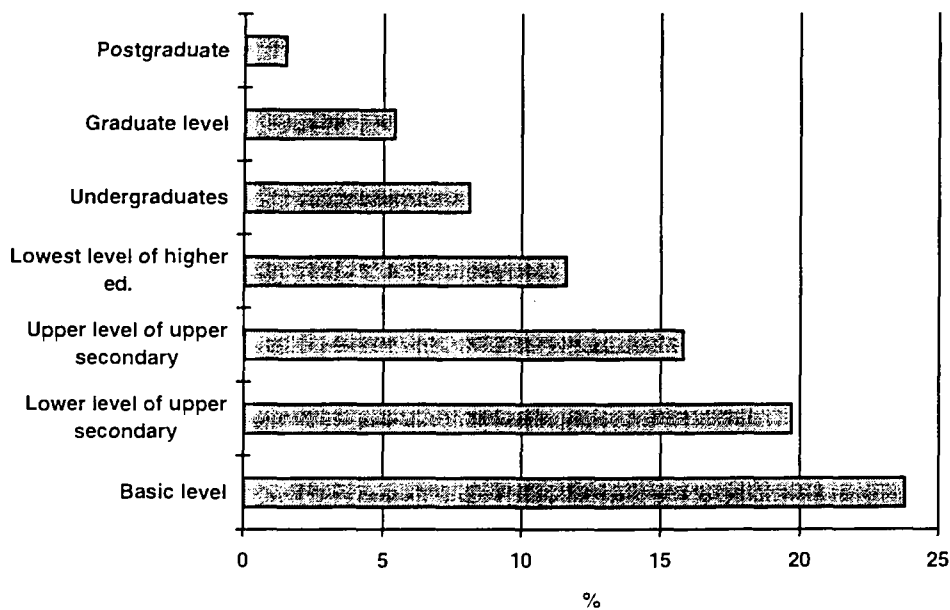
To satisfy short-term needs for additional staff, firms have relied increasingly on temporary work agencies and employment contracts have frequently been changed to subcontracting with newly self-employed people. Overall, great concern has been expressed about the emerging trend toward atypical employment and work without an employment contract. The fear is that they will undermine labour law and contribute to a general erosion of employment protection.

1.2.4 Level and structure of unemployment

By Western European standards, unemployment has traditionally been quite low in Finland, even though it was higher than in other Nordic countries, with the exception of Denmark. In the 1980s, the unemployment rate averaged about 5%. Regional disparities were large and persistent, with the eastern and northern parts of the country having the highest rates. Since there are huge differences in regional population density, the workforce is very unevenly distributed across the country. Therefore, in terms of absolute numbers, about half the total unemployed in the 1980s were concentrated in very small areas around larger towns and in declining industrial districts in southern Finland.

The youth unemployment rate has usually been approximately double that of adults, but similar to that in most other countries. The male unemployment rate has been higher than that of women. The disparities in the unemployment rate by level of education have been the most pronounced. Despite the temporary equalising tendency during the recession, in 1994 the unemployment rate among those with a basic education was treble that of those with higher education.

Chart 3: Unemployment rates by level of educational attainment, 1994



Source: Statistics Finland, Labour Force Survey.

Table 7: Unemployment rates by age and gender, selected years, 1980-1995

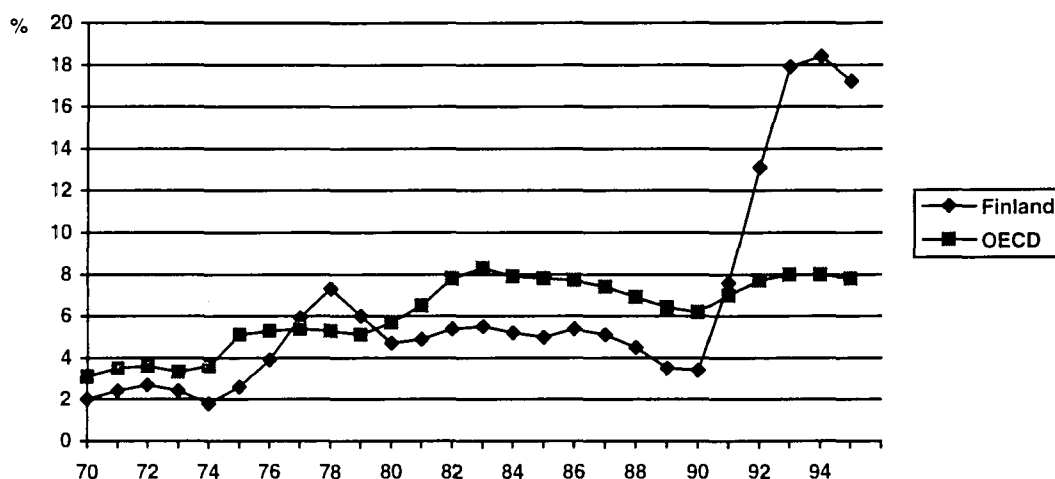
	1980	1985	1990	1994	1995
Aged 15-19	13.5	14.1	8.6	36.7	32.0
Aged 20-24	6.4	7.7	5.9	32.4	29.1
Aged 25-29	5.4	5.1	3.2	21.4	19.4
Aged 30-34	3.6	4.3	2.8	16.9	15.7
Aged 35-39	3.3	3.4	2.7	15.3	14.5
Aged 40-44	2.5	2.8	2.7	14.8	13.9
Aged 45-49	3.3	3.2	2.3	13.9	13.2
Aged 50-54	3.9	4.7	3.4	14.4	13.6
Aged 55-59	5.0	7.2	4.8	25.6	27.0
Aged 60-64	4.2	6.0	1.4	13.7	12.3
Total	4.7	5.0	3.4	18.4	17.2
Females	4.7	4.6	2.8	16.7	16.7
Males	4.7	5.5	4.0	19.9	17.2

Source: Statistics Finland, Labour Force Survey

The dramatic rise in unemployment - from 3.4% in 1990 to a peak of 18.4% in 1994 - contrasts with the relatively impressive labour-market performance of the preceding decades, when the unemployment rate in Finland was generally one to three percentage points below the OECD average (Chart 4). The surge of unemployment accompanied the decrease of total output by over 12%. Even though unemployment in the early 1990s affected a broader cross-section of the population than previously, the disparities by region, gender, age and education remained similar, although the size of the disparities tended to narrow. Surprisingly, the deterioration of the labour market position of young people did not show at all in their relative unemployment rate, which remained approximately double that of the adult unemployment rate. This was due to the steep fall in the youth labour force participation rate.

The relative unemployment rate of older people has tended to increase, however, as the average duration of spells of unemployment among those aged 55 years or more has increased considerably. This reflects the weak employment opportunities for older people in a slack labour market, as well as the unlimited duration of unemployment benefits up to the age of 60 (which is the eligibility age for unemployment pension). There are some economic incentives which discriminate against older people (Santamäki-Vuori, 1996a). For example, in enterprises employing more than 50 people, payroll taxes for financing employers' contributions to pension funds are graded by age, the scale varying smoothly from 14% for young people to 30% for those over 53 years of age. Moreover, large firms are individually responsible for financing disability pensions paid to their former workers and, from 1989, a partial experience-rating applies to the funding of unemployment pensions.

Chart 4: The unemployment rate in Finland and in the OECD countries, 1970-95

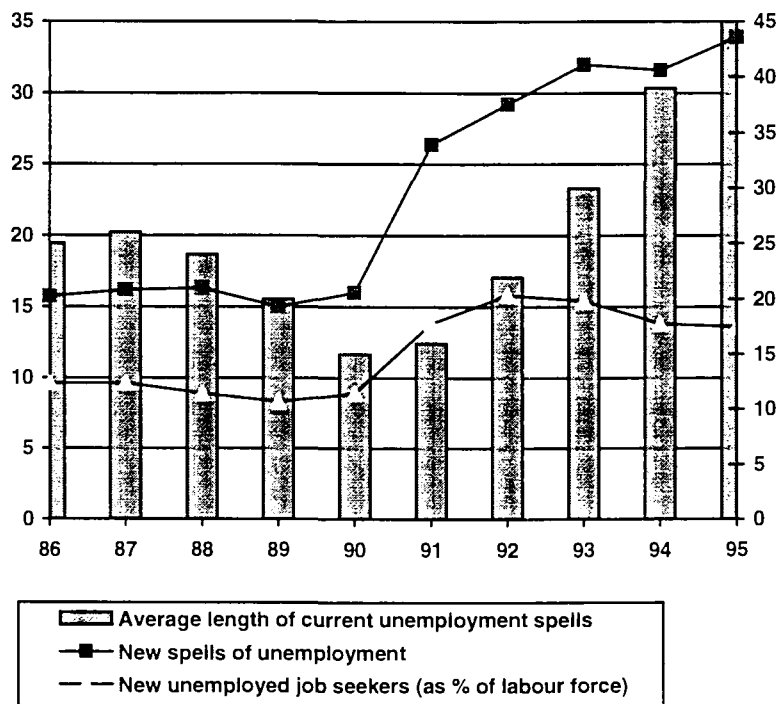


Source: OECD Labour Force Survey

In the late 1980s, when the average unemployment rate was slightly more than 4%, the annual inflow of people into the unemployment pool was about 10% of the labour force. In 1991-1995 when the average unemployment rate was nearly 15%, the corresponding relative inflow rate was about 15%. Thus, the relative inflow rate increased one and a half times and the unemployment rate trebled, compared with the earlier period. This implies that most of the rise in unemployment was attributable to an increase in the recurrence of unemployment spells and, in particular, to the lengthening of unemployment periods.

Changes in the recurrence of unemployment spells can be illustrated by considering the number of people becoming unemployed, alongside the number of new unemployment spells. We see from Chart 5 that in the late 1980s, the annual relative inflow of new spells was one and a half times that of the inflow of new people. During the recession, the corresponding ratio was about two. Increases in the average length of unemployment spells were even more striking. The average length of ongoing spells of unemployment rose from 15 weeks in 1990, to 45 weeks in 1995. In terminated spells of unemployment, the corresponding change was from 12 weeks in 1990 to 25 weeks in 1995. There are marked differences across age and gender, however. Unemployment duration tends to increase with age (Table 8) and the spells are longer for men than for women. As for terminated spells in 1995, the average duration for women was 22 weeks, compared to 28 weeks for men.

Chart 5: Annual flows into registered unemployment, as percentage of labour force (the left scale) and the average length of current unemployment spells in weeks (the right scale), 1986-1995



Source: Ministry of Labour, Annual Register Data.

Table 8: Average duration (weeks) of terminated and ongoing spells of unemployment by age and gender

Age	Terminated spells in 1995			Ongoing spells in Feb 96
	All	Females	Males	
15-19	13	13	14	19
20-24	19	16	21	25
25-29	22	18	27	34
30-34	25	22	29	40
35-39	26	23	31	44
40-44	27	23	32	49
45-49	28	24	34	53
50-54	31	27	37	56
55-59	38	33	44	90
60-64	92	89	97	68
Total	25	22	28	48
N=	856,343	452,920	403,423	443,646

Source: Statistics by the Ministry of Labour.

The sharp rise in unemployment coincided with a more uneven distribution of the unemployment burden. The proportion of long-term unemployed (12 months or over continuously) in total unemployment has been relatively low in Finland, averaging

some 11% during the 1980s (Annex, Table A11). However, Finland experienced a temporary drop in long-term unemployment in the late 1980s. At this time, the economy was picking up and, more importantly, active labour market policies were giving a high priority to long-term unemployed people.

The 1987 Employment Act (operative in high-unemployment regions since 1988 and in the whole country since 1990) obliged either the State or local authorities to arrange training, or a temporary job, for six months for long-term unemployed people. Besides people who had been continuously unemployed for over a year, the provision also covered recurrently unemployed people whose spells of unemployment amounted to a total of 12 months during two preceding years. The statutory placement obligation for the recurrently unemployed was abandoned in 1992 and the whole obligation was repealed from the beginning of 1993. Such selective manpower policy measures contributed to the fact that the proportion of the long-term unemployed in total unemployment dropped to 3% in 1990 and 1991. Thereafter, long-term unemployment has been rising sharply, so that at present it amounts to about 140,000 people, or 30% of total unemployed job-seekers.

Along with the economic recovery, the flow into long-term unemployment slowed down in 1994. The relative outflow rate has continued to fall (Annex, Table A12), which is related to the trend towards longer and longer spells of unemployment which have a lower probability of ending. Therefore, long-term unemployment will be further aggravated and is going to become an entrenched problem in Finland. Moreover, if the definition of the most hard-hit group is relaxed to include those, for instance, who - after long-term unemployment - are participating in active labour market policy schemes or who become unemployed again after completing a programme, long-term unemployment might amount to some 250,000 people, or 10% of the total labour force (Santamäki-Vuori, 1996b).

The unemployment rate for men has fallen more than that for women, reflecting the sharp disparities in sectoral developments during the economic up-turn. Indeed, the average unemployment rate among women remained the same - at 16.7% - both in 1994 and 1995, while for men there was a drop from 19.9% in 1994 to 17.6% in 1995. The fall in the unemployment rate was most pronounced among youths aged 15-24, however, from 33.6% in 1994 to 29.9% in 1995. More generally, the disparities across regions and educational levels have started to widen again.

1.3 Main trends in job creation and job loss

Data on job turnover are based on the Business Register, produced by Statistics Finland. In 1993, the number of registered employers and enterprises subject to turnover tax was about 117,000 (Annex, Table A13). In terms of employment, these enterprises cover 95% of non-agricultural industries. Since many personal services were exempted from value-added tax in 1993, the coverage in terms of all enterprises subject to trade tax was no more than 60%. This data base has been utilised mostly in order to describe the setting up and failure of companies, rather than the number of jobs entailed.

A more detailed comparative study by OECD (1994a) on job turnover covers the period 1986-1991. In respect of Finland, this is a problematic period covering both the economic boom and then the collapse in 1991, with heavy staff cuts amounting to 9% of the personnel in the enterprises covered (Annex, Table A13). The results need to be treated with caution, since some of the data may be misleading since they relate to two very different periods. However, the following conclusions can be drawn from the OECD study.

Firstly, the average annual rate of job gains was equal to 10% of total employment and the corresponding rate of job losses was equal to 12%, giving an annual rate of job turnover at 22, on average. Job turnover was greater in services than in manufacturing, but in both sectors the main source of both job gains and job losses was labour adjustments in the existing establishments, rather than firm openings or closures.

Secondly, virtually all new (98%) and existing (95%) establishments are very small (with 1-19 employees). However, a significant proportion of new jobs are generated by new medium-sized establishments (Table 9). In 1991, new establishments employing 20-99 employees accounted for 25% of new jobs created by new establishments, while the corresponding figure for those employing more than 100 employees was less than 17%. This may be related to the fact that new establishments do not always represent true 'births', since changes in ownership, for instance, are also counted as new establishments. A recent analysis by Statistics Finland suggests that no more than about half of all new establishments are newly created.

Thirdly, small establishments contribute a high share of both gross job gains and gross job losses. During the period 1986-91, small establishments employing less than 20 people accounted for 53% of gross job gains and for 38% of gross job losses. This was the only category registering net gains. However, corporate networking and close interaction between large and small firms might have been an important factor in ensuring the success of small businesses.

Table 9: Distribution of employment in new and existing enterprises by size class

	New enterprises 1990-91 (%)		Existing enterprises 1993 (%)	
	Establishments	Employment	Establishments	Employment
1-19 employees	98.1	58.1	95.2	29.2
20-99 employees	1.7	25.2	3.8	16.8
100-499 employees	0.2	13.2	0.8	18.7
500+ employees	0.0	3.5	0.2	35.3
	100	100	100	100

Source: For new enterprises - OECD (1994a) and for existing enterprises - Business Register of Statistics Finland.

As pointed out in Section 1.2.2 (Table 6), the decline of employment in agriculture and forestry has contributed to a slight decline in self-employment as a proportion of total employment, during the period 1980-1994. If the primary sector is excluded,

however, there has been a substantial rise in the proportion of entrepreneurs in total employment - from 5% in 1980 to 10% in 1993 (Aho and Koski, 1995). Moreover, broadly similar developments are shown in all main industries which may be related to increases in subcontracting and externalisation.

As to projected developments by the year 2000, the labour administration has recently compiled estimates on job opportunities by occupation (Ministry of Labour, 1996a). Taking into account both the outflows from the labour market (about 300,000 people and mainly due to ageing) and net employment increases (about 140,000 people), the total number of job openings (440,000) are expected in four sectors particularly:

- manufacturing work (88,000);
- technical executive or expert work (69,000);
- social service work (66,000); and
- administrative executive and expert work (48,000).

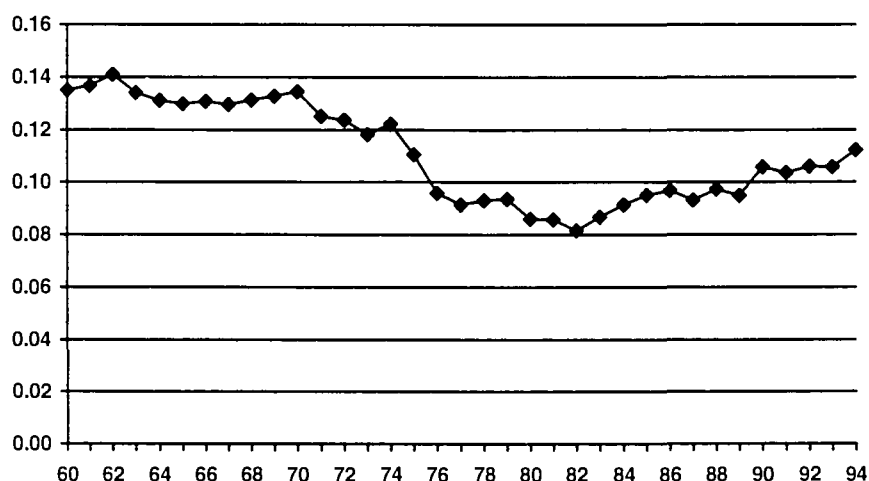
1.4 Wages and salary trends

1.4.1 Inter-industry wage dispersion

From 1980, real earnings for regular working hours have increased by about 30%. The rise was markedly higher in the private sector than in the public sector in the 1970s, but thereafter there have been similarities across the different employer sectors (Annex, Chart A2). However, in the 1990s the private sector has once again shown higher increases.

Within the industries (the business sector), relative wage differentials between the main sectors narrowed markedly in the 1970s, but since the early 1980s the wage dispersion has tended to widen again (Chart 6). In 1994, disparities in the average hourly earnings between the main sectors were still less than in the early 1970s. On the other hand, even under circumstances of nearly unchanged overall wage dispersion, significant changes in relative wages offsetting each other at the aggregate level seem to have taken place. Recently, as a result of the union-level bargaining round in autumn 1994 in particular, wage developments in the export sector, service and public sector have tended to differ to an increasing degree. A new feature of the Finnish labour market is that wage changes reflect strongly the productivity and profitability developments in the particular branch or sector. It can be argued, however, that if wages are to be used to allocate efficiently resources in the economy, these differences in compensation for similar work should not be permanent.

Chart 6: Wage dispersion (weighted coefficient of variation *) between industries, 1960-1994



* In calculating the coefficient of variation the standard deviation of each industry has been weighted by the share of employees of that industry. This procedure constitutes a step towards measuring wage differentials among employees. The unweighted coefficient of variation exhibits a similar development, the rise since the early 1980s being even more pronounced, however. The calculations involve the nine main industrial groups in the National Accounts, and the wages refer to average hourly wages (annual wages and salaries divided by the total number of performed working hours).

Source: Statistics Finland, National Accounts.

In the manufacturing sector, wage differentials between branches have exhibited a more stable development than in industry as a whole. However, due to strong occupational segregation by gender, developments in the inter-industry differentials in average earnings were affected by a long-term narrowing of the gender wage gap. In manufacturing, for instance, wage dispersion between branches has increased for females and males, even though the overall dispersion has not moved upward to a similar extent. The same underlying process is likely to have affected developments in the business sector as a whole. By international comparison, the inter-industry wage dispersion in Finland has been at the average European level and clearly larger than in Sweden and Denmark (Asplund, 1995b).

1.4.2 The gender wage gap

In the long run, most of the narrowing of the gender wage gap seems to be due to increased educational attainments among women. Interestingly, the unexplained part of the gap that cannot be attributed to differences in any observed qualities between the genders, has not narrowed at all (see Asplund, 1995a, for changes in the gender wage gap for non-manual employees in Finnish industry in 1980-1994). During recent years, the long-term equalising tendency in female and male earnings has stopped, however, and wage differentials have begun to increase (Annex,

Chart 3). In 1994, the gender wage gap amounted to about 25%, across the whole economy.

1.4.3 Minimum wages

As noted earlier, minimum wages are set by collective agreements in Finland. This implies that the level of minimum wages differs across sectors and there is some grading by age. Beside the normal grading by age, a two-year agreement by the central labour market organisations - valid from mid-1993 to mid-1995 - allowed, on certain conditions, the employment of young people under 25 on pay which was 10-50% lower than the minimum wages agreed in collective agreements. In practice, the agreement mainly concerned young people under 25 who, after completing studies, were entering the labour market for the first time as well as young people in a summer job or in apprenticeship training.

Experience with the temporary agreement suggests that the impacts were negligible, possibly except for summer jobs (Saari, 1996; Santamäki-Vuori and Sauramo, 1995). Moreover, as discussed in Section 1.3, the scaling of payroll taxes by age favours the employment of young people over that of adults. Due to the huge number of minimum wages, there is no clear way to construct time series for minimum wages and to estimate the developments in the ratio of the minimum wage to the average wage. Since the early 1980s, there have, therefore, been no such estimates available.

Some indirect evidence, however, is obtained by looking at the distribution of individual wages and salaries and differences between the lower and upper ends of the distribution. Even though caution should be exercised in international comparisons, since the results may be affected by such factors as whether the data are based on administrative registers or household inquiries, some preliminary findings are worth noticing. In particular, the lowest wages seem to be rather low relative to median wages in Finland, and the same also applies to the highest wages (Robinson, 1994; Santamäki-Vuori, 1995; OECD, 1993). The dispersion below the median is rather wide and rather narrow above it. The results suggest that the relative level of minimum wages is not particularly high in Finland (for international comparisons, see Annex, Table A14).

1.4.4 Individual pay differentials

As to developments since the early 1980s, the changes in individual wage dispersion have been moderate (Table 10). The range seems to have widened somewhat during the boom of the late 1980s and narrowed again during the recession of the early 1990s. The rise in wage inequality which preceded the recession was associated with large changes within almost each age-gender group, industry and educational category (Eriksson & Jäntti, 1995). If the figures for years 1980 and 1992 are compared, the figure D1/D5 describing the level of the lowest decile compared

to the median wage has increased slightly. Preliminary data from 1994 suggest that a similar compression continued in that year also.

Table 10: Trends in individual pay differentials, 1980-1992

	1980	1986	1989	1990	1991	1992
D9/D5	1.55	1.56	1.60	1.59	1.58	1.55
D1/D5	0.54	0.56	0.56	0.59	0.60	0.60
D9/D1	2.87	2.79	2.86	2.69	2.63	2.58

D1/D5 denotes the pay level of the lowest decile relative to the median pay, whereas D9/D5 denotes the pay level of the highest decile relative to the median.

Source: Statistics Finland (1995b)

There are at least two reasons for recent developments. One is related to the various additional wage payments which increased in the boom years and shrank during the recession. As these different cash-based profit sharing systems, bonuses and overtime payments which affected mostly employees belonging to the highest deciles decreased during the recession, the overall pay distribution tended to narrow.

Another reason relates to the higher incidence of unemployment among those with lowest wages. For instance, 46% of the women who became unemployed in 1992 had been in the lowest quintile of the pay distribution in 1991, whereas those belonging to the highest quintile formed only 4% of newly registered unemployed women. For men, the figures were 38% and 9% respectively. As the proportion of the lowest wage groups in the pay comparison drops, the dispersion appears to become narrower.

1.4.5 Real wage flexibility

At the macro level, real wage flexibility seems to have been high in Finland (for a survey of Finnish evidence, see Tyrväinen, 1995). For many observers, a distinctive feature of the Finnish wage-setting process has been the role played by the Scandinavian inflation model, or the so-called EFO policy model of wage determination. A key feature of the model is that the 'open' export sector acts as a wage leader, and that productivity growth and changes in export prices (with subsequent adjustment for changes in terms of trade) provide a basis for permissible wage changes in the economy. In this strict sense, the EFO model seems to provide an insufficient description of the Finnish experience. Yet it may be argued that the EFO model has influenced policy-making by adding, to the principles of the negotiated incomes policy, a concern to sustain international competitiveness.

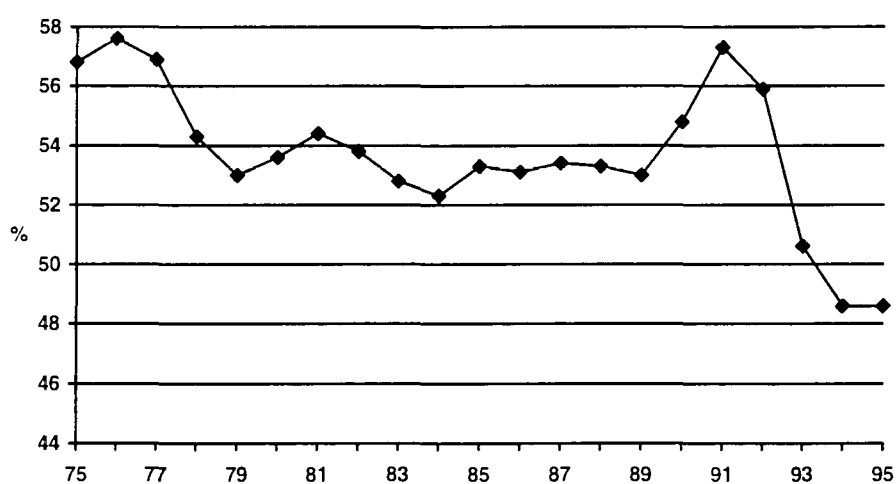
The co-ordination of the wage setting process has made it easier to deal faster with adverse macro-economic shocks and to prevent wage spirals. Admittedly, real wage flexibility has often been attained through devaluation, thereby accentuating inflation propensity in the economy. Devaluations were used to correct the

functional distribution of income in favour of capital which contributed to the very high investment rate, typical of the Finnish economy. In fact, the combination of low real wage rigidity and high nominal wage rigidity has characterised macro-economic wage performance. It accords with the fact that real labour costs have been adjusted through inflation.

A completely new situation emerged in 1991 when the Finnish markka was tied to the ECU, rendering unfeasible the restoration of the external balance via exchange rate changes. The considerable need to adjust real wages by cuts in nominal wages did not succeed, however. This may be taken as an indication of resistance to cut nominal wages. An important additional viewpoint is that under conditions of exceptionally high indebtedness of households and enterprises, deepening the underlying deflation process was considered to be too risky for economic performance. In autumn 1991, the currency was devalued by 14% and, in 1992, it was left floating.

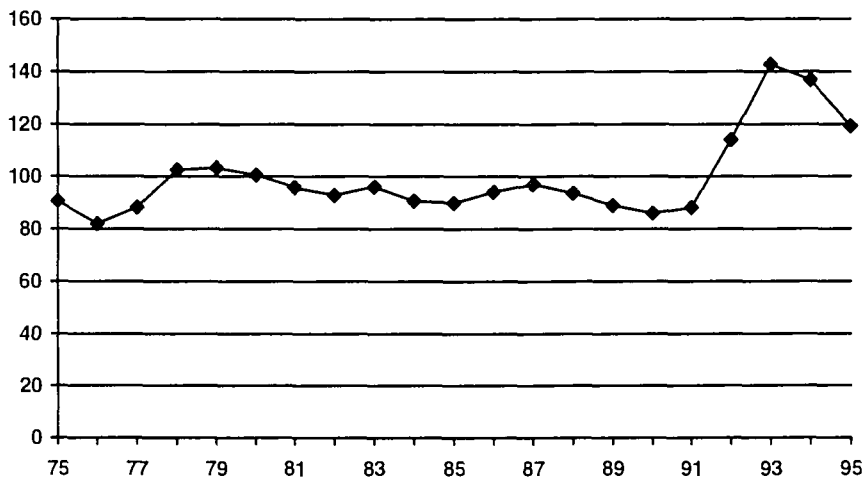
The depreciation of the currency resulted in a very significant change in the functional distribution of income (Chart 7). Along with high wage inflation in the late 1980s, price competitiveness deteriorated. The depreciation of the currency, wage freezing in the early 1990s and the rapid productivity growth resulted in a huge improvement in the price competitiveness of manufacturing industry in Western markets (Chart 8). The competitiveness of exports slightly weakened in 1995, mainly due to the appreciation of the markka. Competitiveness is, nevertheless, exceptionally good in 1996.

Chart 7: Share of wages and salaries plus employers' social security contributions in value added in industries, 1975-1995



Source: Statistics Finland, National Accounts.

Chart 8: Price competitiveness of manufacturing industry in Western markets, 1975-1995
(Average 1970 - 1994 =100)



Note: Measured in terms of unit labour costs relative to the 14 most important competitor countries. The weights used are these countries' export shares in Western Europe, weighted by the commodity composition of Finnish exports. Source: Ministry of Finance.

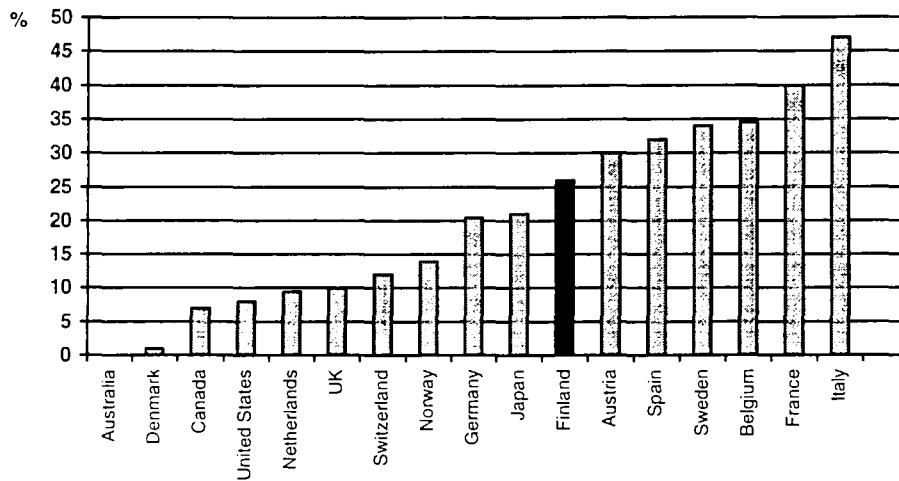
Recently, the EFO model has been amended to apply to circumstances characterised by the target of low inflation and floating (or permanently fixed) exchange rates (Tulopoliittinen selvitystoimikunta, 1995). The new model is based on the idea that the room for wage increases is equal to the sum of the target inflation and average productivity growth, less changes in non-wage labour costs. The total labour costs for each unit of output then increase in line with the target inflation. Under conditions of permanently fixed exchange rates, the target inflation would be defined by inflation in the monetary union area.

In order to ensure that wage developments fit better with local conditions, the need for greater reliance on local level bargaining has been recurrently emphasised in Finland. On the other hand, the capacity for centralised, or co-ordinated, bargaining to offer a potential vehicle to achieve low nominal wage agreements and thus to minimise inflationary expectations has recently been more widely recognised. This was illustrated by the wage settlements in autumn 1995. Wage inflation had accelerated after the preceding year's union level wage round. In attempting to tackle this wage inflation, there was reliance on a traditional corporatist arrangement with a high degree of centralisation and also with close state involvement (for details, see Allén & Kiander, 1996).

Beside wages, changes in indirect wage costs have also affected total labour costs. In 1996, the average rate of employers' social security contributions in Finland was 25.8% of the payroll (Lehtinen, 1996a). Employers' social security contributions consist of the following items: national pension contribution, sickness insurance contribution, insurance for occupational hazards, group life insurance contribution, unemployment insurance contribution and employment pension contribution.

Except for the national pension contribution, the contributions are used to finance insurance for employees.

Chart 9: Employers' social security contributions, percentage of wage bill, in various countries in 1996



Source: Lehtinen (1996)

The social security contributions paid by Finnish employers are not particularly high, when compared to those in other European countries (Chart 9). However, they increased rapidly in the early 1990s. Such increases were mainly a result of the soaring unemployment insurance expenditure (e.g. the employers' average unemployment insurance contribution increased by some five percentage points from 1990 to 1995, cf. section 5.3), but thereafter, employers' unemployment insurance contributions have been lowered again. Moreover, countries that have high employers' contributions do not generally rank very high in terms of taxation of employees, and vice versa. In Finland, however, moderate employers' social security contribution combined with top tax rates on employees give rise to a very high total taxation of labour.

1.5 Analysis of the principal causes of the rise in unemployment since 1980

1.5.1 Developments in the 1980s

By the mid 1980s, Finland had built up a good reputation for economic dynamism. The country underwent a recent and rapid transition from a predominantly primary product economy to one in which services predominate and in which high-technology industry flourishes. In addition, adjustment to the international upheavals of the 1970s and 1980s was less painful than in many other countries. The percentage change in consumer prices in Finland, from 1980 to the mid-1990s, was very similar to that for the EU average. Since the recession of 1977-78, when the unemployment rate rose to a peak of more than 7%, the recorded unemployment

rate dropped to an average of less than 5% in the 1980s and less than 4% in 1989 and 1990. In southern Finland, the recorded unemployment rate was less than 1.5% at the beginning of the 1990s. Admittedly, however, unemployment was higher than in the early 1970s, but by the standards of Western Europe generally, the figures were low until the recent economic crisis.

In interpreting developments in the 1980s, at least two points are worth noting, however. Firstly, to cope with labour market problems in the late 1970s, there was a growing reliance on supply-oriented measures and unemployment pension, in particular. Labour shedding in manufacturing took place via departures from the labour market, while new entrants took most of the jobs in the expanding service sectors. Thus, it is plausible to argue that industrial restructuring has been associated with a substitution of labour force entrants for older displaced workers. Secondly, to tackle unemployment, there was more emphasis on direct employment measures in the late 1980s, reflecting a change of emphasis in Finnish labour market policies. The efforts to provide - as a measure of last resort - temporary subsidised jobs for some groups of unemployed people served to diminish long-term unemployment and to narrow regional disparities in unemployment.

1.5.2 Economic crisis in the 1990s

After a good performance for most of the 1980s, the Finnish economy was hit by a severe recession in 1991. A slowdown was already under way in early 1990, and in the following 3 years output declined by around 12% - the most severe drop recorded in any OECD country in recent decades. As a consequence, employment decreased by a total of 18% and the unemployment rate, which had been among the lowest internationally in 1990, rose to 18.4% in 1994.

The main factor behind the crisis was a collapse in domestic demand, but the depression was also exacerbated by external shocks such as recession in the world economy, a collapse in exports to the former Soviet Union, deterioration of price competitiveness in Western markets, worldwide overcapacity of the forest industry and a reversal of favourable terms of trade. It is widely accepted that the crisis was a joint result of 'bad luck, bad banking and bad policies'. The relative significance of the individual factors has been the subject of extensive discussion in Finland. Moreover, the sharp rise in real interest rates revealed underlying inefficiencies in the economy - including the low rate of return of investments - that were concealed under the more regulated circumstances.

Fundamental questions about the conduct of macro-economic policy have also been raised, because the process of decline started with the deregulation of financial markets in the mid 1980s. Financial liberalisation was associated with a self-enforcing spiral of credit expansion and asset inflation, increasing sharply the indebtedness of firms and households and their exposure to the risks attached to interest rates, exchange rates and asset prices. During the boom, fiscal policy never took the necessary restrictive stance. The worst misjudgement was probably made in monetary policy, however, both in boom and bust (see, e.g. Bordes et al, 1993;

Pekkarinen, 1995). During the years of the bust, defending the fixed exchange rates necessitated punitive interest rates, as speculation against the currency intensified with deteriorating economic circumstances. In a badly over-debted economy, asset deflation was accelerated by high interest rates, with a chain of bankruptcies as a result. Massive credit losses were accruing to banks, leading to a severe bank crisis. The recessionary spiral worsened, as indebted firms and households cut down their consumption and expenditure.

The markka was devalued under heavy speculative pressure in autumn 1991. In autumn 1992, it was allowed to float and after a period of hesitation, monetary policy was relaxed and interest rates started to fall in early 1993, facilitating a gradual recovery of the economy towards the end of the year. During the two subsequent years, with average economic growth at slightly more than 4%, employment has improved by some 3%.

Notwithstanding the huge economic fluctuations, the conventional relationship between the changes in output and employment has shown striking stability in Finland - in particular, if the rapid structural change from the labour intensive domestic sector to the capital intensive export sector during the early stages of the economic recovery is taken into account.

According to the estimates by the European Commission (Directorate-General II), one percentage change in output growth (relative to trend) gives rise to a change of 0.63 percentage points in the unemployment rate in Finland (European Economy No 60, 1995). This is a figure not dissimilar from the EU average of 0.54.

The estimates of the elasticity of unemployment rate to output - as well as those of the non-accelerating rate of inflation (NAIRU) and the output gap - are very sensitive to the particular estimation method chosen (cf. Giorno et al, 1995). The most recent estimates by OECD suggest that the level of NAIRU might at present be as high as 15%. Updated domestic estimates are not available, though. Due caution is required in assessing the precise level of the NAIRU, because of the nature of the estimation methods and the sharp fall in the rate of inflation,.

In the 1980s, there was some evidence in Finland that the moderate rise in NAIRU was associated with a decrease in hidden unemployment, partly as a result of changes in the unemployment benefit system in 1972 and 1985. There was also some evidence on the mechanism of partial hysteresis in the labour market; wage inflation seemed to be influenced not only by changes in unemployment, but by the level of unemployment. Thereafter, discussion about the factors contributing to the rising level of NAIRU has been less clear cut. A substantial proportion of any change is likely to be attributed to two factors: the sharp rise in long-term unemployment (Pehkonen, 1994) and the substantial rise in the tax wedge, i.e. the difference between the real (deflated at producer prices) cost of labour and the real (deflated at consumer prices) take-home pay.

As shown in Chart A4 in the Annex, the ratio of product to consumption pay - a measure of the tax wedge - rose from 1.8 in 1985, to 2.2 in 1994. A rise in consumer prices relative to producer prices, tightening income taxation and rises in social

security contributions by both employers and employees each contributed to this outcome.

Any influences due to changes in labour market mismatch are much more debatable. Moreover, a recent analysis points to the critical role of labour demand (unemployment-vacancy ratio), compared to that of the mismatch in explaining the outflow rate from unemployment (Rantala, 1995). The number of unemployed job-seekers relative to the number of job vacancies increased from about 3 in 1989 to a peak of more than 80 in 1993, the ratio being slightly less than 60 in 1995.

2 LABOUR MARKET INSTITUTIONS

2.1 Public Institutions

In Finland, the Ministry of Labour directs and supervises the operation of the entire labour market administration. The Ministry is responsible for active labour market policy, the implementation of which has been delegated to the 13 regional labour districts and the 183 local employment offices. There are several bodies at all levels of administration, through which the social partners can influence labour market policies. The Council for Labour Affairs is the highest tripartite body which takes part in drawing up the Ministry's budget, as well as guidelines, action plans and policy targets for regional and local public employment service (PES) offices. Tripartite bodies also advise the regional PES offices and tripartite committees attached to each local office to take decisions about the labour market situation of individuals for benefit purposes (European Commission, 1996; OECD, 1995a).

The network of public employment offices is a branch of the Ministry of Labour at the local level. Until 1994, there was a public monopoly in the provision of employment services. The Ministry could grant permits, however, to private associations - often white-collar trade unions and occupational associations - to engage in job-placement activities. Since 1986, the activities of temporary work agencies have been regulated through a licensing system. In 1994, the new Employment Services Act abolished the permit procedure for job placement and regulations on the hiring of labour were lifted. In general, the private provision of employment services was then permitted. The removal of these restrictions has had little impact to date, partly due to the prolonged slack in the labour market.

Public employment services include:

- job placement;
- vocational guidance;
- labour market training;
- information services regarding training and occupational choices and;
- vocational retraining.

To claim unemployment benefits, unemployed job-seekers are obliged to register at public employment offices. Although the function of benefit payment was separated from the employment offices in 1985, the public employment service retains the control function for assessing the responsibility of claimants to seek jobs. Moreover, the public employment service has a vital role in the overall implementation of active labour market policy measures (ALMP). Most ALMP spending passes directly through the employment offices, in the form of payments to training providers or employment subsidies paid to public and private sector employers.

In practice, the public employment service is more involved in the granting of employment subsidies and in placing unemployed workers in training, than it is in matching job-seekers to ordinary job vacancies. This tendency became more

pronounced during the heavy recession, as the number of job vacancies broke down. In 1989, the total annual number of registered job vacancies was about 380,000. The number dropped to 114,000 in 1993, but along with the economic recovery the number of registered job vacancies started to increase, amounting to 170,000 in 1995.

2.2 Collective Wage Bargaining

2.2.1 Labour relations

Traditionally, the Finnish labour market has been highly organised. The right to organise is safeguarded by the Constitution and the right to bargain collectively is guaranteed through a system of collective agreements, based on legislation. The extent of unionisation among wage-earners has grown steadily since the late 1960s, when the political integration of the trade union movement took place and the development of an effective negotiated incomes policy became established. In 1994, about 79% of employees covered by collective agreements were union members (Sandqvist, 1996). If retired, student and non-paying union members are included, the extent of unionisation is about 97%. During the last few years of very high unemployment, there has been a clear tendency towards higher unionisation.

Strikingly, the level of unionisation is higher in the public sector and among white-collar employees than it is in the private sector and among blue-collar employees. Since there are high proportions of women in the public sector and in white-collar occupations, unionisation among women is a little higher than among men. Within the private sector, however, the unionisation rate among women is lower than among men, which is partly related to the lower unionisation in temporary and part-time jobs and to lower unionisation in small workplaces (Ilmonen and Kevätsalo, 1995; Kauppinen, 1992).

The high unionisation rate seems to be related to the highly centralised bargaining process and the high rate of unemployment (Kauppinen, 1992). The unionisation rate may also be related to the fact that membership fees are tax deductible, fees are collected mainly by employers (automatic dues check-off) and the involvement of the unions in the administration of unemployment insurance (UI) benefits (Kauppinen, 1992; OECD, 1995a). The UI system is voluntary in Finland. Funds are mainly organised by the unions, although there is also an independent UI fund. Employees have a legal right to join a union UI fund without joining the union itself, but this right is rarely exerted.

Typically, trade unions are organised nation-wide by industry. Industry unions, in turn, are members of central confederations. There are three wage-earners' central organisations, nearly one hundred unions and at most workplaces a branch union and shop stewards. The largest of the central confederations is the Central Organisation of Finnish Trade Unions (SAK), with over 1.1 million mainly blue-collar workers. The two other central organisations are the Finnish Confederation of Salaries Employees (STTK), with 620,000 members, and the Confederation of Unions for

Academic Professionals in Finland (AKAVA), which has about 320,000 members. STTK represents technical and other salaried employees in industry, in private services and in the public sector. STTK was reorganised in 1993 when one of the former central organisations went bankrupt.

The extent of organisation among employers is also high (Statistics Finland, 1995d). There are four major central organisations and three smaller ones. In the private sector, almost 700,000 employees work in firms which are members of the two largest confederations. The bigger one, the Confederation of Finnish Industry and Employers (TT), consists of 28 member associations representing about 6,000 member companies with 450,000 employees mainly in manufacturing industries, transport and the construction sector. The second largest confederation is the Employers' Confederation of Service Industries in Finland (PT). In the public sector, there are four employers' organisations who sign a collective agreement on behalf of state, municipalities, church and some other public institutions. The two major organisations are the Commission for Local Authority Employers (KT), representing more than 700 municipalities and local federations with about 400,000 employees, and the State Employer Office (VTML), representing all civil servants and other employees of central government.

Finnish industrial relations are characterised by the close connection between the political and labour market systems, i.e. corporatism. There has been close co-operation between the employees' and employers' organisations on the one hand and the government on the other. In addition, the organisation promoting the interests of agricultural producers, MTK, has always been very much involved in political decision making. A benchmark year in the development of a comprehensive incomes policy was 1968, when on the Government's initiative a first stabilisation agreement was reached, following a large devaluation in 1967 and other measures designed to boost international competitiveness. Thereafter, although it has not been the case in each round, centralised negotiations have tended to be comprehensive, in that besides wages, the social partners have negotiated over prices, taxes, social security policy and working-time adjustments. In particular, tax decisions and social welfare reforms have been linked to pay bargaining. Some observers believe that this has imposed a disciplinary background on pay bargaining at the centralised level.

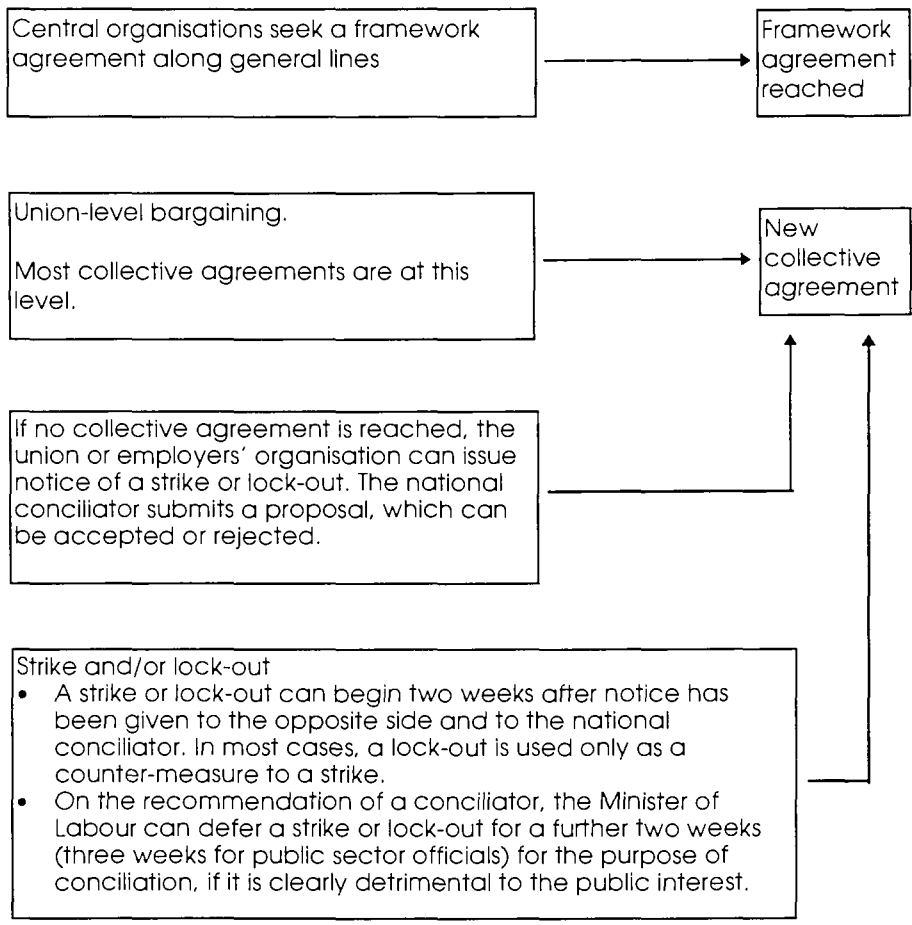
2.2.2 Collective bargaining procedure

The collective bargaining procedure between the labour market organisations is not governed by statutory regulations. In practice, the negotiations procedure may be characterised as multi-layered (Chart 10). Initially, the central labour market organisations try to agree on general guidelines in a round of negotiations which, if successful, leads to a framework agreement. These agreements are not actual collective agreements, but merely provide the framework for the negotiations at the union level. However, central organisations have signed agreements on special

issues (e.g. co-determination procedures and labour protection) which are valid for an indefinite period and are observed as parts of collective agreements.

The second step takes place at the union level, when individual unions negotiate the collective agreements. Legally binding collective agreements can only be concluded between individual trade unions and employer organisations or an individual employer. There are about 600 to 700 such agreements in force, mostly settled at the industry level (Ministry of Labour, 1994). Lastly, talks on implementing the agreement are held at workplaces.

Chart 10: The system of collective bargaining



Source: Ministry of Labour (1990)

Wage drift, which seems to be closely related to the demand of labour, is generated at this local level. It arises from compensation, on which there has not been agreement in collective negotiations and is a particular feature of the implementation of the agreement in the private sector. Wage drift acts as an error correcting factor in the adjustment process where the target is influenced by the bargaining process (Tyrväinen, 1995). However, at the national level a significant

portion is also due to structural changes in the composition of employees and changes in tasks. During the period 1970-1995, wage drift constituted on average 30% of the total increase in earnings. The average annual increase in negotiated nominal wages was about 6% and the wage drift 2.5%, adding up to an 8.5% annual earnings increase. In 1991-1994, nominal earnings increased 2.5% on average, and the contribution by wage drift was about 1% across the whole economy.

Wage drift has been a feature of the private sector. To prevent what negotiators perceived as undesired changes in relative wages, an earnings development guarantee has been introduced in many centralised collective agreements. This has helped to compensate public sector employees, e.g., for not having wage drift.

Since 1968, 19 central agreements on wages and salaries have been concluded in Finland, each of them for a period of one or two years. On a few occasions, the central organisations have failed to reach any agreement. In such cases, industry-level bargaining has followed on a decentralised basis. Individual trade unions and employers' organisations within specific industries have been able to dissociate from central agreements. From time to time, this has led critics to claim that the centralised incomes policy lacked credibility and has raised demands for a more decentralised bargaining process.

Collective agreements prescribe the minimum terms to be observed in all employment contracts. An employer bound by a collective agreement is required to observe the provisions in respect of non-unionised workers, unless they have specific exclusion, under the terms of agreement. If a nation-wide, universal collective agreement applies in a given sector, the agreement is automatically extended to unorganised employers in that sector. The main function of a universally binding collective agreement is to give workers in non-organised enterprises the same minimum employment conditions as organised workers.

There is also a system of minimum conditions based on the collective agreement mechanism, rather than on statutory provisions for minimum pay. A collective agreement is viewed as universal if at least half of the total employees in the sector fall within its scope. There are about 140 universally valid collective agreements and, in total, collective agreements cover more than 90% of employees. The proportion of employees covered via the extensions based on universal validity has been estimated at about 20% (OECD, 1994b). In the services industry, in particular, there are sectors with no universally binding collective agreements to guarantee minimum terms of employment.

Although the main focus of collective bargaining is at the sectoral level, some local agreements are also concluded. They can be either completely independent agreements between the employer and the union, or more often, they are based on clauses in sectoral collective agreements which provide a local agreement for organised employers. Matters often delegated to the local level include working time arrangements, pay on a piece-rate basis and various supplements. In the 1990s, local bargaining on flexible working time arrangements, in particular, has increased markedly. When local bargaining in Finnish companies was studied, it emerged that

local bargaining depends very much on the internal bargaining relations in the company. On the employers' side, rigid organisational practices and authoritarian management are major obstacles to promoting local agreements. On the other hand, if the employees belong to many different unions, this can also build barriers to local bargaining.

In the public sector, terms of employment determined in collective agreements have traditionally served also as maximum conditions. Felt to be rigid, this system has been amended recently by giving more bargaining rights to the local level.

2.2.3 Dealing with conflicts

There is a conciliation system and a permanent state conciliator dealing with conflicts of interest relating to working life. The purpose of this conciliation system is to assist the labour market organisations in reaching a collective agreement when the straight negotiations have failed. Anyone intending a work stoppage due to a labour dispute is obliged to give advance notice to the relevant conciliator in order to allow sufficient time for mediation. Finland has a system of compulsory conciliation in that the parties are required to participate in the conciliation process under a State conciliator. However, the final settlement of disputes is left to the parties concerned.

Issues related to the contents, scope, validity or violation of a collective agreement, as well as to the correct interpretation of a specific clause, are settled by the Labour Court. The Court's decision is final. Neither employers or employees bound to a collective agreement may initiate a labour dispute affecting the agreement as long as the agreement is in force. The parties are obliged to maintain labour market peace. An individual employer, coalition of employers or association of employees can be penalised for violating this obligation.

However, after agreements have expired, the wage-earner party can use a strike or other labour dispute measures to put pressure on the employer. The employer, on the other hand, can react with a lockout.

Traditionally, the incidence of industrial disputes in Finland has been relatively high, by international standards. This has been interpreted as an indication of the relatively contentious nature of industrial relations and the deep-rooted authoritarian attitudes of management. The shift towards a better dialogue at the local level may be underway, however. Each year, there have been a few union strikes, and a considerable number of short wildcat strikes. The latter were quite frequent, especially in the 1970s and early 1980s. In the 1990s, there has been a notable fall in the number of labour disputes, in particular in wildcat strikes. The right to go on strike and to resort to a lockout was permitted for public sector employees and employers, from 1970 onwards. In the 1980s, public sector strikes involving nurses, doctors and teachers became more frequent.

Labour disputes not connected to collective agreements lie within the jurisdiction of general courts. The Equality Ombudsman is responsible for overseeing the

compliance with the Act on Equality between Women and Men. However, the enforcement mechanism established under the law is not particularly strong.

2.2.4 Pressures for change

As the Finnish economy was hit by a severe recession at the beginning of the 1990s, the attitudes of employers towards a centralised incomes policy became more critical. However, as a response to the deep economic crisis, a freeze in contractual wage increases was agreed by labour market organisations for 1992 and 1993. In spring 1993, the basic principles of universal validity, of mandatory minimum employment terms and of tripartite preparation of labour law and labour-market policy became controversial issues in the demands for local-level bargaining and for lowering the threshold of employing young people. The dispute was, however, settled and the Government agreed to observe the tripartite principles, without any changes being made in the nature and universal validity of collective agreements. As to youth wages, the central organisations concluded a two-year agreement on trainee wages.

The central bargaining process in 1993 did not succeed, however, as the employers did not consent to open negotiations with the confederations of trade unions. This led to industry-level agreements, even though sector-specific co-operation within industry, services and the public sector increased. Industry settled with 3% rises, the service sector adopted a zero solution and in the public sector, annual salaries were cut by 2 or 3% as a result of changes in holiday bonuses. There was then great variation across industries in terms of export activity. Employers' representatives, and to a lesser extent the employees' side, were not enthusiastic about centralised agreements. However, in autumn 1995, a return to a centralised two-year agreement took place. There was a moderate general increase in wages, with some additional increases in low-wage sectors. An agreement on developing the quality of working life was also concluded by the partners.

In recent public discussion, there has been continuing debate on local pay bargaining. Furthermore, demands have frequently been raised for changes to universal validity and to the mandatory status of collective agreements on minimum conditions. The impetus for these demands stems largely from the perceived need for wage restructuring through lower wages and, at a local level, the possibility of lower wage increases or even wage cuts. An opposite argument in favour of centralised pay bargaining would emphasise the beneficial role of wage co-ordination in internalising the effects of wage settlements on price competitiveness and unemployment. Furthermore, centralised pay bargaining systems are likely to be better equipped at dealing with adverse shocks to an economy, such as trade loss associated with the two oil price increases. However, the sustainability of this kind of system is debatable.

The main challenge for the Finnish unions in the next few years is to adjust their bargaining strategies to the low inflation target. This is not easy within the multi-level bargaining structure. In any event, it is plausible that within the constraints set by

collective agreements, there will be a greater diversity of firm-specific arrangements related to performance pay schemes, profit sharing, work organisation and training. In the European context, the main question will be whether the labour market organisations will find it advisable to co-ordinate their actions on a national or an international level. At this stage it is not clear in what direction the unions and employers' organisations will proceed. However, the first experiments on European-level co-ordination will be launched in some sectors in the near future.

2.3 Participation systems and personnel funds

2.3.1 Participation systems

Finnish participation systems are based on collective agreements and labour law. The 1946 general agreement between the central organisations recognised shop stewards as the employees' official workplace representatives. Thereafter, opportunities for employees to have an influence on decision-making have been improved through laws regulating representative participation in various areas, both in private companies and in the public sector.

In the private sector, these labour laws include the Act on the Supervision of Labour Protection (1973), the Co-operation within Companies Act (1978), Personnel Fund Act (1989), and the Act on Personnel Representation in Administration (1990). In the public sector, the participation system roughly corresponds to that in the private sector. In state departments, institutions and public utilities the act on co-operation entered into force in 1988. In the municipal sector, the co-operation is based on the 1993 general agreement of the labour market organisations. The laws and agreements superseded the earlier recommendations on workplace democracy.

The Act on Co-operation within Companies applies to companies employing at least 30 people. The Act should also be applied to companies employing at least 20 people when the company intends to give notice to at least 10 employees, for economic or production-related reasons. According to this law, the employer is obliged to negotiate with staff representatives on certain matters related to the work performed and working conditions, employment, utilisation of outside labour, training, staff facilities and the impact on staff of changes in ownership. It is noteworthy, however, that the law does not prescribe co-determination on these matters. Except for some minor matters, the firm makes the final decisions without any obligation to take into account the opinions of the employees. In cases of dismissals, temporary lay-offs or transfers to part-time work, the employer's obligation to consult employees was strengthened in 1989 by defining minimum periods for negotiations when there is disagreement between the parties. The minimum periods vary between seven days and three months. If employers do not adhere to their obligation, the employees concerned have a right to compensation, amounting to a maximum of 20 months' pay.

A recent study on co-operation and participation within enterprises suggests that the opportunities for influencing negotiations were generally rated between

'reasonable' and 'slight' by staff representatives (Kairinen et al, 1995). In small businesses, in particular, co-operation was usually very limited. It was the informative function of the co-operation procedure which was emphasised by staff representatives. Employers and employees disagreed about the need to extend the scope of co-operation procedures. With regard to issues such as working time, lay-offs, productivity, investment and equal opportunities, however, both parties agreed that the co-operation system would be a suitable procedure for local, company level negotiations.

Co-operation on labour protection at the workplace is based on the Act on the Supervision of Labour Protection. In larger companies regularly employing more than 150 people, the Act on Personnel Representation in Company Administration gives staff the right to participate in management on issues related to the company's business operation, finances and position of the staff. Administrative representation can be implemented as jointly agreed by the employer and the staff. If not otherwise agreed, staff elect at least one representative to the company's supervisory board, board of directors or similar body.

2.3.2 Personnel funds

In 1990, Finland introduced a deferred profit-sharing scheme, aimed at promoting economic democracy and deepening co-operation within the company, as well as boosting competitiveness. The Act on Personnel Funds applies to companies employing at least 30 people. According to the Act, the personnel of a company or a smaller unit in the business can establish a fund provided that the company has introduced a profit-related pay scheme. The establishment of the fund is on a completely voluntary basis. The funds are owned and run by the personnel, but the Act leaves scope for variation in the coverage of the fund, the division of the capital into individual and joint shares, or the investment policy of the fund.

This deferred profit-sharing scheme provides tax incentives to employers since payments made by employers into the funds are not liable to payroll taxes. The original regulations stipulated that, after ten years, the employee was allowed to withdraw annually 10% of the money in the fund, though the whole could be withdrawn on leaving the company. To encourage the establishment of new funds, the withdrawal restrictions were relaxed from the beginning of 1996, by reducing the term to five years and increasing the annual withdrawal limit to 15%. Moreover, a Government Bill has been submitted to Parliament to abolish the taxation of withdrawn funds. According to the Bill, the Income Tax Act will be amended to allow 20% of all income from personnel funds to be totally tax-exempt, with 80% being taxed as earned income.

At the moment, roughly 90,000 employees - about 5% of all employees - are covered by the existing 40 personnel funds. Take-up was initially quite rapid, but along with the heavy recession interest declined and a few funds have even been suspended. The majority of personnel funds were established in large manufacturing companies that had already introduced a comprehensive cash-based profit sharing system.

Such systems continued to exist alongside the deferred profit sharing system of the investment fund. Staff funds are less common in small and medium-sized companies and in the service sector.

In all companies, economic democracy was related to industrial democracy (Repo, 1994). Funds were seen as a means of shifting the dialogue from work related issues to the use of capital. The more profound understanding of business was expected to lead to higher work motivation, feelings of responsibility and willingness to accept changes at work.

3 LABOUR MARKET LEGISLATION

3.1 Employment Protection Schemes

3.1.1 The current position

In accordance with Nordic tradition and the tripartite principle, much of Finnish labour law has been developed co-operatively by employers' and employees' representatives and the State. Laws have often been enacted in response to labour disputes and resulting compromises, rather than as a result of unprompted government initiative. Case law has often formed the basis of new legislation, so that formerly regulated terms and conditions of employment have been gradually incorporated into labour law. Traditionally, amendments in labour law have thus been the result, rather than the instigation, of changes in prevailing practice (Bruun 1987). However, in recent reforms aiming at relaxing employment protection, the Government has adopted a more active role.

A General Agreement on Protection against Arbitrary Dismissals was signed by the central labour market organisations in 1966. Before then, employers had a virtually unrestricted right to dismiss workers. The agreement provided that a worker could not be dismissed or laid off without a specified, valid reason. In addition, unorganised employers were obliged to follow these regulations, in line with the universal validity of collective agreements. As a result of labour union claims and a trend towards general jurisdiction, labour legislation has since been amended to cover a wide variety of terms and conditions of employment.

One important exception concerns the order in which lay-offs or redundancies are made. According to the current agreement there are two criteria for identifying employees who are given special protection. One is intended to serve the interests of enterprises by retaining the most qualified staff. The other safeguards those who would most suffer hardship from job loss. These criteria mean that, when reducing the workforce, older workers have relatively little protection. Furthermore, the Finnish system means that low priority is given to the last-in-first-out principle.

Labour law is based on the concept of an employment relationship. A person is considered to be an employee if certain criteria are met - working under contract for an employer under the latter's direction and supervision, in return for a wage, salary and other remuneration. If these criteria are not met, the person performing the work is considered to be self-employed. A recent surge of a wide variety of new patterns of work that do not meet the criteria of an employment relationship or that have been specifically excluded from labour law has caused a new and unsettled situation, however, as an increasing number of people seem to be left without employment protection. A working group has recently charted the problems and considered ways of rectifying them (Ministry of Labour, 1996b).

To summarise the current state of employment protection, it is useful to review laws on recruitment rules, individual dismissal and collective redundancy.

3.1.2 Rules of recruitment

According to the Employment Contracts Act, an employment contract can have a fixed or an indefinite duration. Fixed-term contracts have been restricted to 'objective' situations, i.e. to perform a task which itself is of a fixed duration, for traineeship, or if the permanent occupant of the post is temporarily absent. However, exemptions are permitted for other, well-founded reasons given by the employer. A temporary amendment to the Employment Contracts Act allowed fixed term contracts of at least six months, in order to recruit people who had been unemployed for over a year. This temporary amendment applied from the beginning of 1995, to the end of 1996.

A fixed-term contract ends without any separate notice when the stated period runs out, or when the specified work is completed. Dismissals or temporary lay-offs are not permitted during the contract period. If the term of the contract is contrary to the provisions of the Act, the contract can be regarded as valid for an indefinite period. This can also be the case where an employee has a series of fixed-term contracts, without a justified reason. This is intended to provide a ban on contract chains.

To satisfy short-term needs for additional staff, firms can use temporary work agencies. The system for licensing agencies was abolished in 1994. From April 1996, public employment offices started to hire temporary workers, initially in the major employment offices of Helsinki, Turku and Tampere.

In any employment contract, it is possible, but not necessary to agree on a probationary period of four months maximum. If the employer arranges job-related training lasting for more than four months, the maximum length of the probationary period is six months. During the probationary period, it is possible for both parties to end the contract, for reasons other than those prescribed by law. Before 1987, the probationary period was three months. The further lengthening of the period has obviously been on the employers' agenda. However, this does not currently constitute a major issue in Finland.

There are no general affirmative action programmes (such as quotas) for disabled people or for promoting equal opportunities. However, some labour administration schemes are specifically targeted at disabled people. Moreover, the Act on Equality between Women and Men includes provisions to promote gender equality and to ban discrimination based on gender, pregnancy or parenthood.

There are two regulations which prescribe employers' recruitment practice. The first means that part-time workers who would prefer full-time work have priority for similar full-time jobs in their company. The second regulation applies where there have been previous lay-offs for economic or production reasons. In such cases, the employer is obliged to contact the local public employment office to check if any of the employees made redundant are still seeking a job. Such employees are given priority for similar vacancies in the company for nine months.

3.1.3 Rules of individual and collective dismissals

a) Grounds for dismissals and pre-notification

Ending an indefinite employment contract presupposes either that notice is given on one side or the other, or that there has been serious misconduct or offence of omission. Whilst a contract is in force, an employee can be 'laid off', meaning that the employment relationship remains valid, but that work and pay are interrupted indefinitely or for a fixed period. If there is a temporary decrease in an employee's work and the employer cannot reasonably provide other work or training, the employee can be laid off for up to 90 days. When the employer becomes aware of the need to lay off employees, he must warn the employees' representatives, and the labour authorities if the lay-offs affect more than 10 people. The employer must also give at least 14 days notice to the employees concerned.

The shortest pre-notification period for dismissals is one month (valid from March 1996 for contracts that have been in force for less than a year). The notice period increases with tenure - to six months, where a post has been held for over 15 years. If the employer does not observe the notice period, the employee is entitled to full pay in lieu.

An employer can give notice on a contract, based on either individual grounds - relating to the employee's actions - or on collective grounds - relating to economic or production reasons. The latter reasons are valid only if the amount of work has fallen substantially and if the employee cannot be reasonably, in view of his skills and abilities, transferred or retrained. Dismissal is illegal unless both of these conditions are met. Where there is a change of ownership of a business, the new owner may give notice within a month of the transaction if the reasons for redundancies relate to the change of ownership.

The Employment Contracts Act also contains provisions on protection against notice for shop stewards, pregnant women and those on maternity, paternity, parental or child-care leave.

b) Obligation to negotiate and sanctions of illegal actions

Under the Co-operation within Enterprises Act, employees are consulted on collective dismissals. The Act normally covers enterprises employing 30 or more people, but extends to companies of 20 to 29 employees if the company intends to make at least 10 employees redundant on economic or production grounds. The Co-determination Act specifies the obligation to negotiate. This obligation is fulfilled when the matter is agreed upon or if, in cases of staff cuts, the minimum negotiating periods have passed. There are three limits for minimum negotiation periods: seven days, plus advance notice of three days, for dealing with the employer's proposal; two months in cases of staff cuts due to change in ownership; or three months for cases in which the proposed measure (dismissal, transfer to part-time work or temporary lay-off for more than 90 days) concerns more than 10 people. If the employer fails to adhere to these standards, the dismissed employees have a right to

compensation, amounting to a maximum of 20 months' earnings. In most cases any monetary compensation has amounted to between four and six months' wages.

In cases of unfair individual dismissals, the Dismissals Procedures Act imposes a conditional compensation scheme to encourage reinstatement or re-engagement. The employer has an 'interpretation prerogative' where there is disagreement. Employees are obliged to observe their employer's decision until the dispute has been settled in a court of law. In practice, employers have chosen, almost without exception, the option of higher compensation. In cases of unfair collective dismissals, compensation for damages are determined by the Court.

The labour market organisations have also agreed rules, incorporated into their collective agreements, for protection from dismissal. This means that any employer tied to this kind of collective agreement must observe these rules, as minimum terms. The agreements include further rules on the dismissal process and on compensation applicable in cases of unfair dismissal. In the service sector there is no such general agreement and protection is specified solely by legislation.

Since 1970, an employee dismissed for economic or production reasons is guaranteed a lump-sum payment if finding a new job proves difficult because of age or other reasons. Such compensation is paid from a collective fund so that firms are not individually responsible for payments to their redundant workers. To qualify for the redundancy payment, the claimant must be at least 45 years of age, have been in the job for a minimum of five years and must have been registered as an unemployed job-seeker for at least one month. The number of recipients of this compensation has been rather low - about 22,000 people in 1994. In addition, payments have not been high, with the non-taxable amount corresponding to one or two months' net earnings. The scheme, administered by the Education and Redundancy Payment Fund, has been gradually modified along the lines of an adult education scheme, by paying supplements for time spent in training.

3.1.4 Recent debate and policy actions

At present, two factors characterise employment protection in Finland. First, social aspects are not given a prominent role, and second, labour legislation is heavily based on managerial leeway, which means that there is scope for employers' unilateral solutions. According to opinion surveys carried out in the mid-1980s, Finnish employers, in comparison with their counterparts in most other European countries, regarded employment protection as of minor importance. In the 1990s, employers have expressed strong demands for lowering the threshold for hiring new employees. A survey, carried out among small and medium-sized enterprises in spring 1996, showed that 13% of respondents regarded labour legislation, and regulations on collective agreements, as the most important obstacle in hiring new employees (Suomen Yrittäjät). Non-wage labour costs and slack demand were most frequently cited as the most important obstacles to hiring.

Recently, many Western European countries have introduced legislative changes designed to reduce employment protection. Chronically high unemployment has increased workers' demands for greater employment protection, and simultaneously the economic uncertainty has reduced the employers' willingness to offer any long-term commitments to their work-force. Even though employment protection favours employees' loyalty and commitment to the firm, there has been quite a strong tendency to facilitate the hiring of workers on fixed-term contracts and to make use of subcontracted labour.

Another matter of concern is a potential conflict between the objectives of security, efficiency and equity. Employment protection is an important need for workers, but measures to promote employment security can reduce total employment. If this is the case, some workers are enjoying protection that is not offered to the whole work force. In the 1970s and 1980s, however, there were many improvements in employment security, without a resulting growth in 'precarious' employment. In recent years, there has been an increasing willingness to hire casual labour. Overall, it is arguable that protection of some workers is attained at the expense of others' insecurity.

No Finnish evidence on the effects of labour market regulation is available, and in international empirical studies the evidence is generally mixed (e.g. Centre of Economic Policy Research, 1995). If regulations make it difficult to dissolve existing employment relationships, labour adjustment through a reduction of hours rather than dismissals, becomes more likely. On the other hand, however, there will also be less job creation. As a result, the inflow into unemployment will tend to decrease, as will the outflow from unemployment. This suggests that average unemployment is not linked to labour market regulation in any simple way, while rigid markets do tend to have more stable unemployment.

In autumn 1995, a working group drew up a multi-annual employment programme for Finland following the recommendations of the European Council meeting in Essen. On 19 October, the Council of State based its decisions-in-principle on the proposals of this working group. One of the recommendations included relaxing labour regulation on job security and fixed-term employment contracts. The measures are being prepared under tight deadlines in various Ministries, in working groups or in tripartite negotiations between the Government and the social partners.

Early in 1996 decisions were made on reducing the employer's period of notice to one month, instead of the previous two, if employment had lasted less than one year. Preparatory work on atypical employment contracts will continue, aimed at giving such contracts a status equivalent to indefinite employment contracts. The Ministry of Labour has proposed a repeal of the ban on chain contracts and the position of people (e.g. trainees or self-employed people) working for one employer without a contract will be clarified. Moreover, proposals for shortening negotiating periods and clarifying negotiation procedures, aimed at formulating amendments to the Co-determination Act, will be produced by the Government and labour market organisations by the end of May 1996. If no other agreement is reached, the present three-month period will be cut to two months.

3.2 Regulation of Working Time

3.2.1 Working hours

The Working Hours Act is a general law, supplemented in many sectors by more specific Acts. Under the Act, there are upper limits of 8 regular working hours per day and 40 per week. The Act lists the kinds of companies and jobs in which the employer can calculate regular working hours over extended periods, e.g. 80 hours over 2 weeks or 120 hours in three-weeks. Using a schedule drawn up in advance for the whole period, an employer can specify up to 48 hours in a week, as long as the weekly average does not exceed 40 hours. The maximum extended period is about a year. Moreover, if agreed in advance, the regular working day can be increased to nine hours, as long as the average working week in a three-week period is not more than 40 hours.

Overtime comprises the time in excess of regular hours, on either the daily or weekly basis. If the latter is used, overtime on individual days is not counted. As a general rule, an employer may not allocate to a single employee more than 200 hours of daily overtime and 120 hours of weekly overtime. Exemption may be granted to exceed the annual limit by 50%, with an absolute ceiling of 480 hours of overtime per year. In all cases, the employee's consent is required.

Employees must be paid extra for overtime. The premium for daily overtime is 50% for the first two hours and 100% for each following hour. The premium for weekly overtime is 50%, irrespective of the number of hours. Part-time workers can work additional hours at normal wage rates, with a premium applying to those hours which exceed normal 'full-time' working-time. For young people under 18, there are some further restrictions related to overtime hours and to night work.

During the past five years, some striking changes have taken place in respect of overtime hours. During the recession, paid overtime work - compensation either in money or leisure time - decreased, but unpaid overtime work increased (Statistics Finland, 1995d). During the up-turn since 1994, overtime working has been increasing. Last year even the number of paid overtime hours increased substantially, amounting to near the level of the boom years, and the overtime hours have increasingly been accumulated among the same people (Ministry of Labour, 1995).

Each week, an employee must be provided with a rest period of at least 30 continuous hours. In some sectors of industry, there are also provisions for a daily rest period.

The legislation on working hours is largely mandatory. However, where the contracting parties are national labour market organisations, it is possible to deviate from some provisions through collective agreements, even though this may be disadvantageous for employees. Most sectors have collective agreements prescribing shorter regular hours, usually between 35 to 38 per week. The option of locally agreed arrangements for flexible working time has been used mainly to lengthen daily working hours, as long as they remain at the average level over a

period of 7 to 8 weeks. This option has not, however, been open to unorganised employers.

A comprehensive reform of the Working Hours Act was prepared on a tripartite basis. The social partners could not agree on the details of the reform, but the Government Bill was submitted to Parliament in April 1996 and will be implemented when required by the EU Directive. The main features of the proposal concern local negotiations, and the maxima for overtime and for rest periods. Options for local negotiations, within the framework of collective agreements, will be extended to unorganised companies which are required to observe collective agreements. The maximum number of overtime hours will be reduced to 330 and the weekly rest period will be increased to 35 hours, averaged over 14 days. Daily rest periods will be set at 11 hours and working hours, in the period, to 9. With the consent of employees, it will be possible to shorten the rest period to 7 hours.

Employers resisted the cut in overtime hours and would have liked to agree a reduction in the overtime hours pay premium. Unions were opposed to the changes concerning daily rest periods, as well as to the further exclusion of upper-level senior staff from the range of working hours protection.

3.2.2 Annual leave

The Annual Leave Act prescribes employees' rights to paid annual leave. The Act is based on the earnings principle, which states that annual leave is earned by work carried out during the previous year. The amount of annual leave depends on the number of months giving entitlement to leave. Work in a calendar month gives entitlement to annual leave only when at least 14 days, or 35 hours, have been worked. Under the Act, once an employment relationship has lasted a full year, the maximum annual leave is 30 week days, six of which have to be taken outside the normal holiday season (May 2 to September 30). The provisions of the Act are unconditional and any contract that reduces an employee's entitlement is null and void. The social partners may, however, agree on entitlements that go beyond the Act.

Reform of the Annual Leave Act is underway. Employees' organisations have emphasised that annual leave should accrue in proportion to the amount of work performed, without restrictions related to the number of hours or days worked. Employers have proposed increases in the scope of local negotiations.

3.2.3 Career breaks and work sharing

a) Leaves arising from individual needs

In Finland every expectant or nursing mother is eligible for a maternity allowance. The statutory leave is 263 working days, some of which (158 days) may be transferred to the father if the mother agrees. In practice, the conversion of maternity leave into parental leave has not affected the family division of labour to any considerable

degree. Most of those fathers who take advantage of this option are on leave for less than a month.

Employees also have discretionary rights to special leave for reasons related to child-care and study. A system of child-care leave was introduced gradually between 1985 and 1989. This makes it possible for either the mother or the father to stay at home to take care of the child even after the parental leave, until the child reaches the age of three. The employer is not obliged to remunerate the employee but, in terms of employment security, the essential point is that after the leave the employee is entitled to return to her or his previous job. The entitlement to return also applies for other statutory leaves - parental, study or job-rotation leave.

According to the Study Leave Act, an employee whose main employment with the same employer has lasted for at least one year is entitled to a maximum of two years' unpaid study leave for any period of five years' service (for details of the associated compensation, see Section 5.2). The employer has a right to postpone the beginning of the leave for up to six months. If the leave has been granted for more than 50 working-days, an employee can interrupt the leave. However, if the employer has recruited another person to replace the permanent occupant, the employer can refuse to accept the interruption.

Since the late 1980s, there has also been a voluntary part-time pension scheme which does not include compulsory replacement. A part-time pension can be awarded to employees aged 58-64 who have long work-careers and who change from full- to part-time work (i.e. an average 16-28 hours per week). The replacement rate is 50% of the earnings losses. The number of part-time pensioners is quite low, amounting to 4,500 in 1994, or about 1% of the total population of eligible age.

b) Schemes to promote work sharing

During the past few years, three special schemes - the job rotation scheme, the part-time pay supplement scheme and the '6+6 hour day shift model' - have been launched to promote work sharing. So far, the take-up of these schemes has remained rather low, however. A temporary job-rotation scheme, introduced in 1996, was intended to give employees more scope to undertake studies and to take leave for personal or family reasons, while at the same time giving unemployed people a foothold in working life. The scheme is based on a voluntary agreement between a full-time employee and the employer. The employee may take unpaid leave for a period of three to twelve months, retaining pension rights. The employer is obliged to recruit an unemployed job-seeker for the same period, but not necessarily for the same job. The employer is not entitled to any employment subsidy in hiring the unemployed substitute, which means that there are no financial incentives for employers to engage in the job rotation and the part-time pay supplement schemes. The person on job rotation leave receives compensation amounting to 60% of the appropriate unemployment allowance, up to a ceiling of FIM 4,500 per month. If the person undertakes full-time vocational training, an

additional training supplement of FIM 1,000 is awarded. The Ministry of Labour, in co-operation with the social partners, is to further promote the job rotation scheme.

Temporary job-sharing is also encouraged by a part-time pay supplement scheme, valid from March 1994 to the end of 1996. In this scheme, a person voluntarily changing from full- to part-time work can be granted a pay supplement to compensate (at most 50%) for loss of earnings. The supplement can be paid for a maximum of twelve months, with the person thereafter entitled to return to full-time work. The employer has to recruit an unemployed job-seeker for the same period.

The '6+6 hour day-shift model' is not new, but is a reinstated model for reducing working time. In this model, work is organised in two consecutive six-hour shifts, running, for example, from 6-12 and 12-18, or from 8-14 and 14-20. The shifts can overlap and do not include any lunch-break.

The day-shift model has reappeared as a means of increasing operation times, reducing overtime and regular working hours in capital-intensive activities. A few manufacturing enterprises have started to implement the model. In the firms concerned, the very substantial increases in productivity have made it possible to pay the same compensation for 6-hour work as for the previous 8-hour work. Under such circumstances, it is hardly surprising that the system seems to work well, to the satisfaction of both employers and employees. However, it will prove more difficult to introduce the scheme in enterprises where the ensuing rise in productivity is not likely to be as significant. In spring 1996, the government started to negotiate with the Association of Finnish Local Authorities and the employee organisations on the possibility of implementing the scheme in the public sector. The City of Helsinki has expressed interest in applying the scheme to a few social service units, seeking to solve problems relating to inconvenient service hours.

The Government is encouraging arrangements for flexible working time, particularly at the company level. This is part of the development of new patterns of work, taking into account the need for convenient operating and service hours and the individual needs of workers. Further negotiations will also be held with the social partners on the reduction of restrictions on shop opening hours.

c) Provision of part-time work

As a rule, there are no obstacles to providing part-time jobs. A part-time contract can be used if both employer and employee are in agreement. However, transfer to part-time work, against the wishes of an employee, is permitted only if there are grounds for dismissal and the proper period of notice and negotiation is observed. The same is true for temporary lay-offs that take place partially by changing over to a shortened working week. Employees themselves have no right to reduce their working hours, unless they are parents of children under school-age.

d) Reduction of working hours

Traditionally, major demands for shorter working hours have coincided with periods of rapid economic growth. As productivity has increased, people have wanted to increase leisure time, instead of taking higher real wages. Reductions in working time have mostly taken the form of shorter weekly working hours and longer vacations. In the late 1980s, working-time issues were increasingly discussed from the point of view of longer time horizons, putting more emphasis on wider opportunities for career breaks and sabbatical and study leaves. Moreover, flexible working time arrangements serving the needs of production processes, in particular, were rapidly introduced.

Recently, working time became a far more controversial issue as calls were made to share work as a remedy to unemployment. Employers reject working-time reductions and want, instead, more working-time flexibility, irregular patterns of work and longer working-hours. Unions are more favourable towards various kinds of working-time arrangements that reduce the number of performed working hours over a working career. Offering employees better opportunities for regular adult training provides one such route. However, views on general reductions of working time are more diverse.

The most recent general reductions in working time were in the late 1980s, when the number of annual hours for those working more than 40 hours per week was gradually cut by a total of 68 (the so-called *Pekkasvapaat*). It is these reductions in working-time, in particular, that many employers demand to be repealed, without any increases in total earnings. Longer hours are considered by employers as means of lowering unit costs and boosting competitiveness, i.e. as a measure of internal devaluation.

The employers' demand for longer working time is also based on international comparisons. In 1995, Finnish manufacturing industry showed an average of 1,716 regular annual working hours in day-work. This compares, for example, with 1,602 hours in Germany, 1,673 hours in Denmark and 1,697 in Austria. At the high end of the scale, the number of annual hours in Portugal was 1,882. However, if differences across countries in terms of absenteeism, overtime work and incidence of part-time work are taken into account, the number of performed working-hours per employee is very high in Finland.

There are two aspects to the discussion of reducing working hours. The first relates to the reduction of average annual or life-long working time, primarily as part of general welfare policy. Examples of initiatives include those aimed at alleviating the mismatch between actual and desired working hours and promoting opportunities for self-financed sabbatical leaves by establishing, for example, 'time banks' and 'time savings' from overtime hours and untaken annual leave.

The second aspect of the discussion focuses on work-sharing, as exemplified by schemes which depend on public finances, like job rotation or part-time pay supplements.

Sector-specific reductions in annual hours could also be seen as a means of achieving low inflation targets. Given the diversity of productivity growth rates and the marked wage-wage-links in wage formation across the manufacturing industries, the arising tensions in wage developments could be alleviated if part of productivity gains could be used to increase leisure time. In the long run, this would also slow down the decrease in the number of industrial jobs.

3.3 Minimum Wage Regulation

Minimum wages are set by collective agreements. As discussed in Section 2.2, these mandatory terms apply also to non-signatory parties, if there is a national collective agreement which is universally valid for the sector concerned. However, there are sectors, especially in services, which have no universally binding collective agreement.

Sectoral agreements imply that there are differences in minimum wage levels across sectors. In most collective agreements, minimum wages are graded by age so that under 18's can be paid lower wages. Moreover, municipalities have been divided into two categories with separate scales of tariffs, to reflect variations in the cost of living. This means that, in practice, there is some differentiation of minimum wages by sector, age and region. In addition, for large employers, payroll taxes tend to lower the relative labour costs for under 23's (cf. section 1.5). This is due to the fact that employers' statutory contributions to employment pensions are lower for young employees, whose employment contracts do not give entitlement to employment pension.

It is often suggested that minimum wages adversely affect the employment prospects of young people who are trying to get a foothold in the labour market. From the early 1980s onwards, the limited evidence suggests that minimum wages had some, but not a substantial impact on youth unemployment.

A temporary two-year agreement (valid to mid-1995), between the central labour market organisations allowed, on certain conditions, the employment of young people on pay which was 10-50% lower than the minimum wages specified in collective agreements. However, this scheme had no noticeable impacts (cf. Section 1.4.3).

Recently, demands have frequently been made, in particular by employers but also by outside observers, for a repeal of the mandatory status of minimum terms specified in collective agreements, as well as the extension of collective agreements to non-signatory parties. These demands are based on two factors. Firstly, they are related to the promotion of local bargaining in general, to make it possible to take local conditions and profitability concerns better into account when setting wages. The second factor relates to the level of minimum wages. It is argued that unemployed people are unable to compete with incumbents on the basis of lower wages, because of the wage floors negotiated by the insiders. The Government programme says, however, that the principle of the universal applicability of

collective agreements will be observed and a system of minimum standards for terms of employment will be guaranteed (Halving unemployment, p. 36).

4 LABOUR MARKET POLICIES

4.1 *Passive measures*

4.1.1 *Unemployment benefit schemes: Basic characteristics and recent developments*

Unemployment benefit schemes based on both insurance and assistance principles are in operation in Finland. Membership of an insurance fund is voluntary and unemployment insurance funds are mainly operated by the trade unions, although employees have a legal right to join a union UI fund without joining the union itself. However, this right is rarely exerted. There is also a smaller independent insurance fund. Basic unemployment allowance, as well as the recently introduced labour market support, are administered by the Social Insurance Institute.

The detailed provisions of the unemployment benefit schemes have been changed several times. A major reform took place in 1985, when both insurance benefit and the basic allowance became liable to tax. Moreover, instead of being a flat-rate benefit, insurance benefit was changed to an earnings-related benefit. The reform sharply increased the replacement rates for the insured unemployed. Basic allowances were payable, on a means-tested basis, to uninsured people for an unlimited time.

In the late 1980s, the maximum duration of the earnings-related benefits was increased in phases, and in 1991, limits on UI duration were removed for all workers aged 55 or over. To curb the growth in unemployment insurance expenditure, the level of UI benefits was lowered from the beginning of 1992. The compensation percentage of the earnings-related part was then lowered. The following year, a few more amendments were made to tighten the qualifying conditions. The initial waiting period of the basic allowance for those entering the labour market was lengthened from six weeks to three months and the disqualifying period for those who had quit their last job was lengthened from six to eight weeks. Legitimate reasons for refusing job offers without a disqualification from benefits were also tightened and students' benefits were dropped, even during summer vacations. Disqualifying decisions are made by tripartite bodies at local public employment service offices (cf. section 2.1).

In 1994, the basic unemployment allowance was changed to become more similar to unemployment insurance by introducing a qualifying condition of employment record and a maximum duration of payment and by waiving means-testing. New labour market support was introduced for those who are not eligible for the benefits or whose benefits have been exhausted.

4.1.2 *Unemployment benefit schemes: The present position*

There are three kinds of unemployment allowances:

- earnings-related unemployment allowance;
- basic unemployment allowance; and

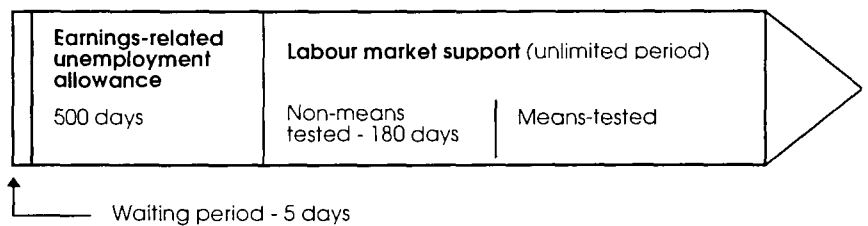
- labour market support.

These are payable depending on whether or not the employment condition is satisfied and whether or not the person concerned belongs to the unemployment insurance fund (Chart 11). All the benefits are payable to unemployed people between 17 and 64, who have registered with a public employment office, seek full-time employment and are fit and available for work. However, unemployed people are obliged to accept job offers given to them by the public employment offices, but during the first three months an unemployed person is not obliged to accept work which does not match his or her professional skills or qualifications. Thereafter, beneficiaries have to accept any full-time job as long as pay is in accordance with collective agreements and pay minus travel expenses exceed unemployment benefit. However, the low number of registered job vacancies and the shortage of staff resources at public employment service offices may have resulted, in practice, to a relaxation of this work test.

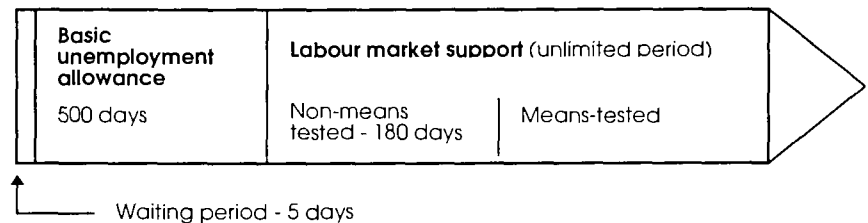
Chart 11: Unemployment benefit schemes in Finland

Employment condition satisfied

Member of unemployment fund

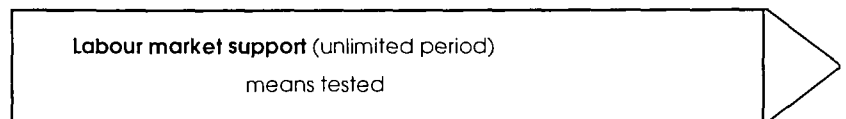


Non-member

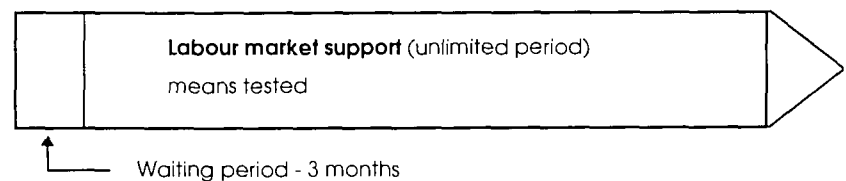


Employment condition not satisfied

Newly graduated people



Others



Source: Social Insurance Institution (1995)

People satisfying the employment condition are entitled to either the earnings-related unemployment allowance (fund members) or the basic unemployment allowance (others). The condition of employment record is considered to be satisfied if the person has been employed for at least 6 months during the previous 24 months in a job where the regular working time was at least 18 hours per week and pay was in accordance with collective agreements. The same condition holds for the duration of membership of the UI fund. Benefits are payable for a maximum of 500 working days without any means-testing. However, those who reach the age of 55 before the exhaustion of benefits are entitled to extra days so that unemployment benefits are payable till the age of 60, when the person qualifies for unemployment pension. Otherwise, where benefits have been exhausted, the unemployed person may receive labour market support of 180 days without means-testing. Thereafter, means-tested labour market support is payable for an unlimited time.

The days during which the person participates in active labour market policy measures (either labour market training, rehabilitation or work) are not counted as unemployed days. Working for six months during a period of eight months requalifies for unemployment benefits (return condition). In cases of recurrent unemployment, the reference pay in calculating the earnings-related benefits dates back to the pay before first becoming unemployed, as long as the temporary work lasts up to six months. As the condition of employment can be renewed by a job of six months, the incentive to accept an uncertain, lower paid job for more than six months is distorted since, if becoming unemployed again, the UI benefit would be paid on the basis of the lower paid job.

Labour market support is available for those who are not eligible for benefits or whose benefits have been exhausted. This labour market support is equal in amount to the basic allowance, although first-time entrants to the labour market who live with their parents get 60% of the full amount of the benefit. However, young people without any vocational or other training beyond the basic compulsory education are not eligible for the labour market support before the age of 20. A person who receives labour market support may participate in apprenticeship training, labour market training, rehabilitation or practical training in a job (without an employment relationship and pay). In exchange for the support, he or she may also be obliged to participate in such measures. During participation in these measures, labour market support is always paid at the full rate.

People temporarily laid-off, as well as those on short-time schedules, are entitled to adjusted daily allowances. In cases of casual earnings, the benefit-cut rate applied in calculating the adjusted daily unemployment allowances is 80% of the earnings in excess of FIM 750 per month.

The earnings-related benefit consists of the basic allowance plus an earnings-related part, which is 42% of earnings above this basic allowance up to a second break-point (which is slightly higher than average earnings), plus 20% of earnings above this level. The benefit is increased for dependent children. The amount of the fund benefit including the child supplements could be up to 90% of the insured person's earnings.

In 1994, the average amounts of paid unemployment benefits (including child supplements) by type of benefit were as follows:

- earnings-related unemployment allowance - FIM 4,487 per month, on average;
- basic unemployment allowance, flat rate - FIM 2,554;
- labour market support, flat rate equal to the basic unemployment allowance, reduced rate for first-time entrants to the labour market living with their parents - FIM 2,367.

In the case of earnings-related benefits, the replacement rate is inversely related to the level of earnings, and because of child supplements, the replacement rate is higher for those with dependents (Table 11).

Table 11: Gross replacement rates of earnings-related unemployment benefits by level of earnings and family status

Monthly Pay	Replacement Rate	
	No Child	Two Children
FIM 5,000	70%	85%
FIM 6,000	65%	78%
FIM 7,000	62%	72%
FIM 8,000	59%	68%
FIM 9,000	57%	65%
FIM 10,000	55%	63%
FIM 12,000	49%	56%
FIM 15,000	43%	49%

Since the previous monthly earnings of unemployed people usually vary between FIM 6,000 and FIM 9,000, the average gross replacement rate amounts to about 60%, or slightly more. The replacement rate corresponds to average European levels, although for basic unemployment allowance and labour market support, the replacement rate is clearly lower than in most other countries. Due to the low level of basic compensation, many of the beneficiaries are also entitled to other means-tested cash benefits, like living allowance.

Against this background, empirical findings on the impact of unemployment benefits on the duration of unemployment spells are interesting. These studies (Eriksson, 1985; Lijja, 1993; Kettunen, 1993) - admittedly from the late 1980s - using Finnish individual panel data suggested that people eligible for UI benefits had a much higher probability of becoming employed than recipients of basic unemployment allowances, even though the replacement rate in the UI scheme is generally much higher. Kettunen (1993) found a strong negative effect of the replacement rate on the duration of unemployment among the recipients of basic unemployment allowance, whereas the corresponding effect for UI claimants was insignificant.

One possible interpretation of these findings is that they reflect selection into the two compensation schemes; recipients of UI benefits were more closely attached to the labour market before becoming unemployed. Another explanation arises from the combined effect of various social security benefits, not only that of unemployment

benefit. Due to the low level of compensation, claimants of basic unemployment allowance are often entitled to other cash benefits. In respect of living allowances, for instance, the effective marginal tax rate is 100%.

Even though the unionisation rate has been very high in Finland, the coverage of UI scheme among unemployed people has been much lower. This is due to several factors related to the incidence of unemployment (the unionisation rate among those with high risks of unemployment, e.g. youths and those in irregular jobs, are lower than on average), the qualifying condition of employment record, waiting periods and the exhaustion of benefits. On the other hand, the share not receiving any compensation at all has hovered at about one-fifth. In recent years, due to the broader incidence of the risk of unemployment in the services sector and among white-collar workers as well as those closely attached to the labour market, the non-coverage share fell to less than 10% in autumn 1993. Along with longer spells of unemployment, it is plausible that the exhaustion of benefits will increase sharply. Thereafter, a tight means-testing which is tied to the spouse's income will lead to a marked drop in the coverage of unemployment benefit schemes.

Table 12: Coverage of earnings-related allowances and basic allowances (as percentage of total beneficiaries of unemployment benefits), 1989-1995

Year	Earnings-related allowances	Basic allowances
1989	54.8%	45.2%
1990	57.6%	42.4%
1991	59.0%	41.0%
1992	60.0%	40.0%
1993	62.1%	37.9%
1994	57.4%	42.6%*
1995	49.1%	50.9%*

Note: In 1994 and 1995, the figures consist of two elements: shares of basic allowance and labour market support. The shares of basic allowance were 29.6% and 22.6% in 1994 and 1995, respectively. Similarly, the shares of labour market support were 13.0% and 28.3%.

There is some overlap in the coverage since due to the exhaustion of the primary unemployment benefit, the same person may have received two types of benefits during a year. That is why the share of earnings-related benefits tend to reflect changes in the coverage with a lag.

Source: Statistics by the Ministry of Social Affairs and Health.

In recent years, some 60% of those receiving unemployment benefits were paid earnings-related benefits (Table 12). The position is changing rapidly, however. There are several illustrations of this shift. In April 1996, the number of registered jobseekers entitled to labour market support amounted to 206,800, slightly less than a half of them because their employment records did not satisfy the qualifying criteria for unemployment allowance and the rest (52%) because of the exhaustion of other unemployment benefits.

Despite the activating tendency involved in the labour market scheme, most of the beneficiaries - 161,000 - were unemployed and they accounted for 36% of total unemployed jobseekers. However, among teenagers, placements with labour market support make up a great majority of all measures under active labour market policy.

In assessing the Finnish unemployment benefit system, a few features have recently been given increasing attention. They include the following:

- the way reference pay is determined in the calculation of earnings-related UI benefits;
- the high benefit-cut rate (80%) applied in calculating the adjusted daily unemployment allowances in respect of casual earnings;
- the unlimited duration of unemployment benefits for those over 55 years of age;
- the relatively long duration of unemployment benefits (500 working days) by international standards; and
- the relatively short employment record qualifying for unemployment benefits.

4.1.3 Reform of the unemployment benefit schemes in Spring 1996

In May 1996, the Government submitted a proposal to Parliament for reforms to achieve savings in earnings-related unemployment benefits and to render the scheme more proactive. The reform was first negotiated on a tripartite basis, but, since the social partners were not able to reach an agreement, the Government itself made the proposal. The main elements of the reforms, which are to be implemented from the beginning of 1997, are as follows:

- The condition of employment record (as well as the condition of UI membership) will be extended from 6 to 10 months.
- The period for renewing the condition of employment record will be prolonged from 6 to 10 months; the accounting period will be lengthened from 8 to 24 months. Up to 16 weeks of labour market training can be included in the condition of employment record.
- The pay of the last job will make up the reference pay in calculating the earnings-related unemployment allowance. However, the new benefit will amount to at least 80% of the previous UI benefit.
- In calculating the adjusted unemployment allowances, the benefit-cut rate will be lowered from 80% to 50%. The benefit-cut rate will be applied for all monthly earnings without any protected part (FIM 750 at present).
- The waiting period will be seven days instead of five, but the waiting period will be applied just once during the 500 days of benefit eligibility.
- Accrued days of annual leave must be taken before the calculation of waiting period starts.

- Older people's entitlement to extra benefit days will be restricted by raising the qualifying age from 55 to 57 years. However, older people whose benefits would therefore be exhausted will be granted a subjective right to a subsidised job for 10 months.
- Young people without any vocational or other training beyond the basic compulsory education will not be eligible for labour market support before the age of 25 (20 at present).
- No index adjustments will be made to the level of unemployment benefits in 1997-1999.
- The employment pension that accrues from the period of UI benefits will be reduced to 80% of the current level.

In autumn 1995, the Government decided to allocate a certain amount of money for granting (under certain conditions) to unemployed people within the UI scheme, the right to income support equal to his or her earnings-related benefit for periods of vocational training. At present, participation in labour market training entitles people to a similar training allowance. In optional training, however, the person is entitled to an adult study grant which is much lower than the UI benefit. The Government decided in May 1996 that an employment record of 8 years would entitle an unemployed person to this training insurance. Other details are still open, and the Government has agreed that an administrator will be nominated to continue preparations for the introduction of this insurance in 1998.

4.1.4 Funding of the unemployment benefit schemes

The current reform of the unemployment benefit schemes has been motivated both by the aim of improving the functioning of the labour market and by the aim of achieving savings in unemployment expenditure. Basic allowances and labour market support are entirely financed by central government through tax revenues. Central government also finances part of the earnings-related benefits which corresponds to the amount of basic allowances. The earnings-related part is financed by employers, by insured people and, temporarily, by all employees. The evolution of total expenditure on unemployment benefits is displayed in Table 13.

Table 13: Evolution of unemployment benefit expenditure (FIM million) by type and financier, 1985-1995

Year	Type of Benefit			Total
	Basic Allowance	Labour market support	Unemployment insurance	
1985	1,163	-	1,620	2,783
1986	1,323	-	1,928	3,251
1987	1,406	-	2,034	3,440
1988	1,267	-	2,098	3,365
1989	906	-	1,906	2,812
1990	860	-	2,217	3,077
1991	2,321	-	5,678	7,999
1992	4,464	-	10,879	15,343
1993	6,789	-	15,176	20,965
1994	5,133	1,306	14,828	21,267
1995	2,703	4,089	12,977	19,769

Year	Financier			
	State	Employers	Insured	Employees
1985	1,940	761	81	-
1986	2,248	906	96	-
1987	2,382	956	102	-
1988	2,274	986	105	-
1989	1,821	896	95	-
1990	1,924	1,042	111	-
1991	5,046	2,669	284	-
1992	9,632	5,113	598	-
1993	12,684	7,133	835	314
1994	8,798	4,153	714	2,016
1995	8,798	4,153	714	2,016

Source: Statistics by the Social Insurance Institute and Ministry of Social Affairs and Health

Since the financing of the earnings-related part takes place on a pay-as-you-go basis, the huge rise in unemployment resulted in a substantial rise in the employers' unemployment insurance contribution. This component of the payroll tax increased from less than 1% regularly, to more than 5% in 1994 and 1995. To alleviate the upward pressure, a general employees' contribution (1.87%) was introduced in 1994. In 1996, the private employers' unemployment insurance contribution is 1% of the part of the payroll not exceeding the first FIM 5 million, and 4% of the remainder. The employees' contribution is 1.5%. Moreover, membership fees of UI funds vary within the range of 0.1 and 2.2%. The division of costs between employers and employees has been changed a few times; notwithstanding this sharing, the surge in unemployment has caused a marked rise in the tax wedge (cf. Sections 1.5 and 5.3).

4.1.5 Unemployment pension scheme

Beside unemployment allowance, there is also an unemployment pension scheme in operation. The aim of the scheme is to provide income security for long-term

unemployed people aged 60-64, who have received unemployment allowance for the maximum period. In order to qualify for the pension, claimants must have been employed for at least five years during the previous 15 years and be entitled to an employment pension that includes a part based on the hypothetical accrual of the pension after the pension contingency. It is paid at a rate equal to the disability pension the claimant would have received if he or she had become disabled instead of unemployed. Unemployment pensions are granted from the statutory pension schemes and financed through the following: national pensions by employer and employee contributions and central government; and employment pensions by insurance premiums paid by employers and employees.

The whole scheme was introduced in 1972, but during the period 1980-1989 the qualifying age limit was temporarily lowered to 55-59, as in the early 1980s. Withdrawal of older people from the labour market was favoured as a means of tackling unemployment and alleviating industrial restructuring. Owing to the large number of unemployment pensioners, the scheme became very costly by the mid-1980s. This led to a tightening of eligibility, and the qualifying age limit was gradually increased to 60 years. As retirement on this scheme has usually meant a final exit from the labour market, unemployed pensioners were excluded from the unemployment figures. This change was made in the employment service statistics by the Ministry of Labour in 1981 and in the Labour Force Survey by Statistics Finland in 1987. The number of people on unemployment pension has decreased from a peak of 69,000 in 1987, to some 40,000 in 1995. The latter number accounted for 16% of the age group.

4.1.6 The balance of passive and active measures

Despite the expressed target to resort more to active than to passive measures, the emphasis has changed markedly towards passive measures during the early 1990s. In the late 1980s, active labour market measures accounted for about 40% of total spending on labour-market programmes (active measures plus income maintenance), a figure very close to the OECD average. National differences are substantial, however, with labour market policy being the most active in Sweden and the most passive in Spain. The striking thing is that during the economic recession, the Finnish position in international comparisons has deteriorated. In 1993 and 1994, the proportion of total expenditure for active measures was only 25%, similar to countries with the most passive policy stance (OECD, 1995a, Statistical Annex).

Total labour market policy expenditure (passive and active) averaged 2.5% of GDP from 1985 to 1991. As a result of the steep rise in unemployment, it reached almost 7% of GDP in 1993 and 1994, the highest in the EU area. Passive expenditure, adjusted for the rise in unemployment, however, declined relative to GDP between 1990 and 1993. Expenditure on active measures for each 5% of the labour force unemployed was around 0.5% of GDP in 1993 (European Commission, 1995). By this criterion, labour market policy was more active in Portugal, Belgium, Denmark,

Austria, Germany, Netherlands and, in particular, Sweden, where the corresponding figure was 1.5%. Given the very high level of unemployment in Finland, however, it is obvious that any substantial increase in the volume of active measures is difficult without harmful or distortionary side-effects. On the other hand, the division between active and passive measures has become less clear-cut, along with the pro-active changes in unemployment benefit schemes.

4.2 Active measures

Historically, labour market policies in Finland were designed to sustain employment through active measures rather than passive income support. Until the 1960s, there was no state unemployment benefit system and unemployment benefits from vocational funds were insignificant, while local and central governments were committed to providing jobs for unemployed people through public works. The Employment Act of 1971 shifted the emphasis of labour market policy in a supply direction, by giving a much greater role to vocational training and promotion of regional and occupational migration.

The reorientation in labour market policies in the 1970s did not, however, totally displace the old emphasis on job creation programmes. In fact, selective employment measures (such as temporary public sector or subsidised private sector jobs) were substantially stepped up in response to the economic recession in the late 1970s.

A new impetus to active labour market programmes was given by the 1987 Employment Act (operative in high-unemployment regions since 1988 and in the whole country since 1990). This reinforced the policy emphasis given to youth and long-term unemployed people and committed central and local governments - as a measure of last resort - to providing either a temporary job or training for young people under 20 years of age and for long-term unemployed people (after an unemployment period of three and twelve months, respectively). In addition, the Act was intended to balance regional discrepancies so that unemployment in any district would not deviate essentially from the country average. The upper limit for the unemployment rate in any region was set at a level 80% higher than the country average.

The statutory obligations were lifted at the beginning of 1992 by removing, from the definition of long-term unemployment, the accumulation of individuals' short-term unemployment spells. In addition, from August 1992, the qualifying unemployment period for teenagers was lengthened to six months. To prevent a sharp rise in statutory placements, the provision of temporary jobs was changed so that they could only be provided in response to requests from unemployed people. This meant that withholding benefits for a definite period was no longer used as an incentive to accept work or training offered by the labour administration. The waiting period was extended from six to eight weeks in September 1993.

Statutory obligations for arranging training or work for long-term and young unemployed people were totally lifted from the beginning of 1993. Nevertheless,

these groups of people, together with those at risk of long-term unemployment, continued to be the main target groups for active labour market policy.

Active labour market measures did not have significant coverage, even whilst statutory obligations were in force. At best, in 1989, about 35% of all unemployed job-seekers were either in training or employed in subsidised jobs. This proportion was comparable to that in 1980. Alongside the growth in statutory obligations, there was a corresponding cut in discretionary measures (see Table 14 for subsidised employment). In addition, the proportion of completed spells of unemployment which were terminated by active labour market measures rose quite moderately - from 21% in 1987, to 26% in 1992. It was, therefore, the incidence of the measures rather than their scope that was mostly affected by the binding obligations. The most significant effect of the obligations was in tackling the problem of long-term unemployment.

Table 14: People employed in subsidised jobs, annual averages, 1987-1992

Year	Total	Discretionary placements	Statutory placements	Statutory, % of total placements
1987	35672	35672	0	0
1988	36863	19406	17430	47
1989	34481	10396	24085	70
1990	30538	5177	25361	83
1991	40137	5165	34972	87
1992	52080	8664	43416	83

Source: Ministry of Labour, Employment Service Statistics.

Given that the statutory obligation to provide either training or temporary jobs has been abolished, it could be argued that, since 1993, any placements that have been made through wage subsidies have been discretionary. However, the abolition of the measures did not apply to those people who had been covered by them before 1993. Employment allocations continued to be targeted at those people unemployed for at least six months (especially long-term unemployed people and youths), as well being used to promote employment of disabled people and to reduce regional disparities in unemployment. Indeed, the statutory obligation to minimise regional discrepancies was retained in the new Employment Act. Since regional disparities in open unemployment narrowed during the recession, however, the provision lost much of its previous effect.

Subsidised work was meant as a measure of last resort. The aim was to allow a combination of subsidised work with other activities like training, attending introduction courses or counselling groups, in a more flexible way than previously in order to improve people's position on the open labour market. However, opportunities in the normal labour market were scarce. The provision of temporary jobs helped, therefore, to maintain people's involvement in the labour market. Given high unemployment and low demand for labour, the measures were not particularly effective in leading to gainful employment shortly after subsidy periods.

A majority of those employed in subsidised jobs worked in the public sector. The employers' organisations have emphasised that wage subsidies exert harmful effects on the competitive position of various firms and tend to cause rigidities in the functioning of the labour market. Subsidies to private companies led to speculation and all too often it was the company applying for the subsidy, rather than the employment office, that determined which unemployed job-seekers were selected. This reduced the scope for targeting the measures on sound labour-policy grounds. There also seemed to be some tension in the views of specific companies and employers' organisations. Employers' organisations have argued for greater flexibility in wage determination, lower payroll taxes and relaxation of hiring and firing rules, as alternatives to wage subsidies,

In the early 1990s, there were almost 20 different forms of employment subsidies. The very strict and detailed subsidy rules rendered the system inflexible and time consuming. As the problems inherent in the system were aggravated by mass unemployment, the employment subsidy schemes were again changed in April 1995. The number of subsidies was reduced to five, the discretionary power and freedom of action by the employment offices were increased and the condition of a minimum spell of unemployment as a prerequisite for subsidised placements was lifted. Moreover, conditions for granting subsidies to enterprises were tightened while the amount of the subsidy relative to wages was lowered. And most importantly, in exchange for the subsidy, private enterprises were required either to sign a permanent (i.e. valid until further notice) contract of employment or to provide apprenticeship training or, for people with poor employment opportunities, to provide other training and rehabilitation.

The amendment was introduced to decrease dead-weight effects and any distortionary effects of the previous scheme. An alternative way of tackling those harmful effects would have been to target the scheme on the most hard-hit groups, like long-term unemployed people. The changes signified a new direction, compared to the previous tendency to provide more temporary job opportunities in the private sector, where the chances for lasting employment after the subsidy period were better. The reform caused a fall of one fifth in the total number of placements into subsidised jobs in the private sector.

In the 1980s, the average number of people employed with wage-related measures amounted to 33,000. The number peaked at 66,400 in 1994 and in 1995 about 64,000 people (2.6% of the labour force) were employed in subsidised jobs, each for an average period of five months. Similar developments were also apparent in labour market training. The number of labour market trainees increased from 16,800, on average, in 1990, to 34,000 - or 1.4% of the total labour force - in 1995. The number of people who started training increased correspondingly from 36,000 to 90,000, while the average duration of courses fell from six to four months. The increase in the demand for training was even stronger, however, making access to training more difficult. In 1995, about a half of all applicants were accepted for training.

Labour market training is primarily vocational training. Trainees are selected by labour authorities and, since 1990, the authorities have been free to purchase

training from any provider. Although job-related training is chiefly a responsibility of employers, labour market training may be purchased jointly by local authorities and employers, in order to meet companies' specific needs.

Labour market training has been increasingly targeted at unemployed people and people at risk of unemployment. This reflects the acute need to sharpen the focus of labour market policy during the depression. The training is particularly directed at adults, while teenagers and young adults tend to be guided to optional training. Due to lack of job opportunities, the scope of training has also been extended to help those interested in entrepreneurship and self-employment. About 10% of those who have completed labour market training have participated in entrepreneurial training. Attempts have also been made to combine training and start-up grants - with very satisfactory results, according to an assessment by the labour administration.

People taking part in labour market training are eligible for training allowances. Members of unemployment funds receive earnings-related allowances equal to unemployment insurance benefits. For non-members, the training allowance is not means-tested but equates to basic unemployment allowance. People dismissed for economic or production reasons can also, under certain conditions, apply for tax-free vocational grants from the Training and Redundancy Fund. Furthermore, the students can be paid additional compensation for travel and accommodation costs. However, social benefits related to adult training were cut and restricted in 1993.

Options for other labour market training improved in 1991, when a study leave system with financial aid for adult training was established. Since the training allowance for this optional training is considerably lower than the unemployment benefit, this option has been used primarily by young people and those who are not unemployed.

The role of active measures in terminating spells of unemployment has remained fairly stable, hovering between 22% and 25% of total terminated spells. Due to differences in employment prospects in the normal labour market and the priority given to young and long-term unemployed people when targeting active measures, the importance of active measures in terminating unemployment spells varies across different groups of unemployed job-seekers (Table 15).

Table 15. Termination of unemployment spells by reason, %, and by group of unemployed job-seekers, 1995

	<i>Long-term unemployed</i>	<i>Youths <25 years</i>	<i>Others</i>
Employed in the normal labour market	14	39	65
Employed through employment service	3	6	6
Employed on own account	11	33	59
Subsidised work	41	21	8
Labour market training	12	6	10
Outside the labour market	18	20	9
Other reason or unknown	15	13	8
Number of terminated employment spells	134,048	239,342	482,953

Source: Ministry of Labour, Employment Service Statistics.

The contents of subsidised job placements by employer sector and target group are illustrated in Table 16. We see that the private sector accounted for about 24,000 subsidised jobs - 37% of the total. Yet three quarters of long-term unemployed people had worked in the public sector, whereas young people and other groups were over-represented in placements to the private sector. The type of measures in private sector placements may be illustrated by a few more figures: normal wage subsidy accounted for 50%, start-up grants for 15% and various on-the-job training schemes for 25% of total subsidised jobs in the private sector in 1995.

Table 16: Number of people in subsidised work by employer sector and target group, annual averages, 1995

<i>Employer sector</i>	<i>Number of people</i>	<i>As % of total placements within target group</i>
Central government	12100	
Share of:		
youths	6%	6%
long-term unemployed	72%	25%
disabled	6%	38%
others	16%	15%
Local government	27350	
Share of:		
youths	21%	42%
long-term unemployed	65%	50%
disabled	3%	38%
others	11%	26%
Private sector (enterprises & households)	23950	
Share of:		
youths	29%	52%
long-term unemployed	38%	25%
disabled	2%	24%
others	31%	59%

Source: Ministry of Labour, Työllisyyskertomus 1995 (Employment Report 1995)

4.3 Implementation of active labour market policy measures by public employment offices

The successful implementation of active labour market policy measures requires adequate staff resources in the public employment offices. Most active labour market policy (ALMP) spending passes directly through the public employment service (PES) in the form of payments to training providers or employment subsidies paid to private or public sector employers. The public employment services also include placement, vocational guidance and information services. To qualify for unemployment benefits, unemployed people have to register at a public employment office. Since most unemployed people are claiming benefits, their rate of registration with the PES is very high. However, more than a quarter of all jobseekers are employed, perhaps because many notified vacancies are filled by closed methods and people have to register in order to hear of them.

The 1987 Employment Act introduced a requirement on employers to notify vacancies to the PES. The obligation which applies to all vacancies for which outside labour is sought remained in place despite the abolition of the PES monopoly on placements in 1994. However, the legislation is only partially respected because there are no sanctions for non-compliance. Notifications of vacancies to the PES as a proportion of new hirings in the economy was estimated by OECD (1995) to be about 30% in 1994. Comparing the pension register data on the number of new employment contracts with the PES register data suggests, however, that the actual share might be somewhat lower. Such a low share needs to be seen in the light of evidence that only roughly half of all vacancies are publicly announced, the rest being filled by informal methods.

The work load at local offices has increased greatly, while staff resources have tended to fall, reaching a low in 1994. Table 17 provides some indicators on the performance of the PES since the late 1980s. The annual number of clients in the employment service has doubled in recent years. In order to serve larger numbers of clients, the organisation and procedures of the PES have been revised by increasing the opportunities for self- and group-services. In 1995, there were about 8,000 groups in action in local employment offices, involving about 90,000 clients (an average of just over 10 people per self-help group). The procedures for filling temporary jobs have been increasingly separated from those for arranging placements into ordinary jobs. Since 1996, hiring of temporary work started in some public employment offices.

Table 17: Work-load and staff resources at the public employment service offices 1990-1995

	1990	1991	1992	1993	1994	1995
Activities during the year						
Job-seekers	528800	719400	907300	1028600	1047000	1015000
- unemployed	318700	464900	646800	768800	819400	805000
Job vacancies	340900	196900	127800	114200	153800	167000
Monthly averages						
Job-seekers	236100	365100	538600	680400	721000	694000
- unemployed	105400	213200	363100	480200	494200	466000
Job vacancies	26900	13400	7100	5900	7400	8400
Staff resources						
Labour districts	396	405	402	375	346	334
Local PES offices	2520	2489	2408	2269	2203	2346

Source: Ministry of Labour (1996c)

Due to changes in the composition of clients - both jobseekers and employers - there are increasing pressures for diversified, individually tailored and more labour-intensive services. The public employment offices offer the employers, for a fee, special recruitment, selection and staff development services alongside the free basic services. Recent experiences from Sweden, for instance, suggest that the attainment of sustainable results by means of active labour market policy measures depends crucially on whether the measure is a well-motivated part of a concrete and individual upgrading plan. Any kind of measure can be wasted if it is not incorporated in such a development plan based on a common agreement between the individual and the employment officer.

The adoption of an operational method which yields good results makes heavy demands on the PES offices; it requires an extensive input of time and professional skills in order for personnel to draft suitable plans. From this point of view, it could be asked whether the current balance between budgets reserved for human resources and those for measures is appropriate or whether an increase in staff resources would produce a considerable improvement in the effectiveness of the measures.

4.4 Description of existing active measures

4.4.1 Employment subsidy for employers

The aim of this scheme is to provide temporary job opportunities for unemployed people to improve their employability by upgrading skills and maintaining involvement in the labour market. Wage subsidies can be granted for employers and enterprises both in the public and private sector. For work in central government, the subsidy covers all wage costs, while in municipalities and in the private sector a partial wage subsidy is paid. The exact amount of subsidy varies from person to person, and is between FIM 2,500 and 4,500 per month. The subsidy is granted for a fixed period of up to 10 months.

The employment subsidy system was renewed in April 1995 and the conditions for granting subsidies to companies were changed. Companies are now required to sign a permanent contract of employment or to provide apprenticeship training (or other forms of training for special groups with poor employment prospects). The intention is that the subsidy should be used increasingly as part of a package of services - including training and rehabilitation - tailored to job-seekers' needs. The maximum duration of the whole package is 18 months.

The private employer's subsidy can also be granted to associations, foundations or households, as well as to companies. If the subsidy is paid to private households for employing an unemployed person, it is exempt from income tax.

Figure 1: Key features of the employment subsidy scheme

Date of introduction	In the present form, the legal basis is provided by an Employment Decree Amendment 1995
Cost	FIM 2,468 million in 1995
Method of financing	Central Government budget
Administration	Labour Administration
Target group	Special emphasis is given to long-term unemployed people, young people and disabled people
Number of beneficiaries	A total of 150,400 people in 1995, 108,700 of them placed during the year; a monthly average of 51,500 people
Length of the programme	22 weeks, on average, in 1995

4.4.2 Labour market training

Labour market training (LMT) is basically further vocational training and supplementary training. Traditionally, basic vocational education has been a small proportion of training overall. In recent years, training aimed at entrepreneurship and self-employment has increased. Moreover, to complement the advisory work of employment offices, instruction guidance for work and training as well as guidance to foreigners are also arranged as LMT.

The 'KEKO' project is a further example of the LMT initiative. KEKO has been piloting development training in small and medium-sized enterprises for professionally educated unemployed people (such as engineers and business graduates). The aim is to improve and utilise professional competence by combining the supplementary training with the company-related development ventures. Beside the normal training allowance, the participants receive a minor compensation paid by the company - in general, amounting to FIM 750 per month.

The Labour Administration purchases LMT from various organisers through a tendering procedure. The administration can procure training in co-operation with employers, who then contribute to the funding.

During training, students are paid a subsidy equivalent to unemployment benefit. In addition, a maintenance allowance is paid to cover meal expenses and a refund of accommodation costs can also be granted.

Figure 2: Key features of labour market training schemes

Date of introduction	The legal basis is provided by the Labour Market Training Act 1990
Cost	2,369 FIM million in 1995, excluding administrative expenses (this includes the procurement of training as well as social benefits paid to the participants)
Method of financing	The Ministry of Labour (and ESF in respect of projects implemented under ESF programmes)
Administration	Labour administration, education authorities as well as the Ministry of Trade and Industry. Education authorities are responsible for planning the content of the training, and in the KEKO-project for example, the Ministry of Trade and Industry selects the enterprises for development projects.
Target group	Unemployed people (over 20 years of age) and those at risk of unemployment
Number of beneficiaries	90,000 people in 1995; a monthly average of 34,000
Length of the programme	Four months, on average, in 1995

4.4.3 Apprenticeship training

The aim of apprenticeship training is to develop vocational skills as well as to provide basic vocational training.

In 1995, apprenticeship training was linked more closely to youth education by giving students access to qualifying examinations. In ESF activities, the apprenticeship system was linked with innovative youth workshops leading to vocational qualifications for practically oriented young people. In addition to basic vocational training, further training or retraining is provided as part of apprenticeship training.

The labour administration supports apprenticeship training by paying employment subsidies to employers, in addition to normal government compensation for the costs incurred.

Figure 3: Key features of apprenticeship training

Date of introduction	The legal basis is provided by the Apprenticeship Training Act 1992
Cost	The public cost is 390 FIM million in 1995
Method of financing	State budget funds channelled through the Ministry of Labour and additional employment subsidies paid to employers by the Labour Administration. In the case of ESF-projects, there is partial finance through EU funds.
Administration	Educational and labour administration
Target group	People in need of enhancement of vocational skills and, increasingly, young people without any vocational training
Number of beneficiaries	A monthly average of about 12,000 people in 1995

4.4.4 Start-up grants

A registered unemployed job-seeker who has a feasible business idea can receive counselling and financial assistance when setting up a new business. A taxable start-up allowance amounting to between FIM 2,500 and FIM 4,500 can be granted for a maximum of 10 months. The allowance is not intended to provide capital for the new enterprise, but to cover living expenses during the initial phase.

In some ESF-projects (pathways to entrepreneurship), efforts are being made to facilitate entrepreneurship by combining entrepreneurship training and financial start-up grants into packages including individually tailored consultation, as well as evaluation and elaboration of the business idea (Ministry of Labour, 1996d). Efforts have also been made to facilitate the co-operation and integration of the various organisations which support entrepreneurship and provide consultative services for enterprises. Special associations - centres for newly established business enterprises - have also been created to provide free counselling. These are being financed jointly by business firms, labour administration and municipalities. In April 1996, there were 27 such centres, with 54 branch offices. A new centre is planned, to serve women in particular.

Figure 4: Key features of start-up grants

Date of introduction	Available since 1984, the legal basis is provided by an Employment Decree 1993
Cost	189 FIM million in 1995
Method of financing	State budget appropriation
Administration	Labour administration in co-operation with the industrial administration
Target group	Unemployed people with previous business experience and/or training. Training can also be provided during the payment of the start-up grant.
Number of beneficiaries	7,800 during 1995; a monthly average of 3,500 people
Length of the programme	21 weeks, on average, in 1995

4.4.5 Part-time pay supplement

To encourage job sharing, a part-time pay supplement can be paid (as compensation for loss of earnings) to a person who voluntarily changes from full-time to part-time working. The replacement rate is 50%, with a ceiling defined for the pay supplement.

The arrangement is based on a voluntary agreement between the employee and the employer. The maximum duration of the pay supplement is twelve months and the employee is entitled to return to full-time work after this period. The employer has to recruit for the job an unemployed person for the same period, so that about half of the reduction in working time is assigned to the unemployed job-seeker.

Figure 5: Key features of the part-time pay supplement scheme

Date of introduction	Experiment valid from March 1994 to end December 1996
Cost	59 FIM million in 1995
Method of financing	State budget appropriation
Administration	Labour Administration
Target group	Not specified
Number of beneficiaries	4,500 new beneficiaries in 1995; a monthly average of 2,000 people
Length of the programme	29 weeks, on average, in 1995

4.4.6 Job rotation scheme

This scheme is intended to encourage work sharing and broaden the scope for individual career breaks. It is based on a voluntary agreement between a full-time employee and his or her employer for the employee to take unpaid leave (i.e. not paid by the employer) for studies, training or personal reasons for a fixed period between three months and a year. The employee is entitled to return to the same job, and the employer is obliged to recruit an unemployed job-seeker for the same period, but not necessarily in the same job.

The person on job rotation leave receives 60% of the unemployment benefit allowance he or she would be entitled to, up to a ceiling of FIM 4,500 per month. In the case of full-time vocational training, a training supplement of FIM 1,000 per month can also be granted.

Figure 6: Key features of the job rotation scheme

Date of introduction	Temporary experiment started in January 1996
Cost	State expenditure is estimated to be between FIM 100-150 million annually, while the annual savings in state unemployment expenditure would amount to some FIM 130 million
Method of financing	Unemployment funds and the Social Security Institution cover the allowances paid to those on job rotation leave. Impact on state budget is negligible.
Administration	Labour Administration
Target group	Not specified
Number of beneficiaries	About 5,000 people a year are expected to make use of the option
Length of the programme	From three to twelve months

4.5 Evaluation of good practice in active measures

Finnish evaluation studies have mostly dealt with the two measures - employment subsidies and labour market training - that make up the great majority of all active labour market policy measures. In general, the findings of the researchers have been more favourable than have general opinions of the measures.

Recent econometric studies by Eriksson (1993) and Pehkonen (1994) found favourable impacts of targeted employment subsidies in curbing long-term unemployment. Rantala (1995) found that labour market training provided the best results for long-term unemployed, while for young adults aged 20-24 years the employment subsidies were effective in increasing the probability of gainful employment. On the other hand, there is some evidence that the displacement effects may be quite substantial in the youth labour market (Eriksson and Pehkonen, 1995; Pehkonen, 1996); job-creation schemes targeted at young people under 20 displace those aged 20-24 in regular employment.

The evaluation of labour market training has also produced mainly positive outcomes (Juuti et al, 1995). Individual assessments of the participants have been particularly favourable, although short-term outcomes in terms of gainful employment following the training have clearly deteriorated. As to the experiences of companies, managers and corporate executives expressed favourable attitudes towards labour market training, although three quarters of the respondents felt that there was room for further improvement in terms of efficiency. The need for closer co-operation between companies and the labour administration was emphasised by the managers, as well as the need to use labour market training for in-company training purposes.

Even though there are many follow-up studies on ALMP measures, few of them have made use of econometric methods to control for the effects of individual characteristics and to disentangle the specific effects of the policy measures. Moreover, many of the existing measures are quite new so that little evidence is available on their performance. The following conclusions are, therefore, necessarily based partly on subjective assessments.

Employment subsidies paid to private and public employers are an established measure containing few innovatory elements. However, within a slack labour market, participation in subsidised job schemes has contributed to firmer involvement in the labour market for long-term unemployed people. The most striking finding concerns the crucial role of the employer sector in subsidised work. The position of those placed into the private sector has been more favourable in many respects (Santamäki-Vuori, 1996b). The subsidy period has resulted in gainful employment more often in the private sector. Moreover, in the private sector, job opportunities can be provided for people with a broader spectrum of vocational qualifications, compared to service jobs in the public sector.

There have been problems, however, in designing schemes to encourage private companies to provide subsidised job opportunities, while avoiding dead-weight effects as well as distortionary effects on competition between companies. The

heavy concentration of subsidised jobs in the public sector, where the possibilities to continue in employment after the subsidy period are negligible and where the number of permanent staff is being cut, tends to result in many disadvantageous effects. The critical issue, therefore, is how to encourage even private companies to participate in these schemes.

In respect of the youth labour market, an additional viewpoint is arising from the expansion of practical training alongside labour market support. Employment subsidies and compensation for apprenticeship training are less attractive alternatives for companies, compared with the increasingly popular option of employing young unemployed people without pay.

Efforts have also been made to provide unemployed people with individually tailored packages of service, with subsidised employment making up a vital part of the overall package. This objective was emphasised in the renewal of the employment subsidy system, when more discretion was given to local authorities in the implementation of active labour market programmes. It is acknowledged that any success of active measures may be critically dependent on their presenting reasonable prospects for beneficiaries in the future. Schemes that acquire a reputation for disguising unemployment, for creating new forms of cheap labour and for failing to provide adequate training will merely lead to a deterioration in the labour market position of beneficiaries. The better the measures are tailored to meet individual needs, the lower the risk of disappointment among participants and the smaller the reduction in cost effectiveness. Staff resources at local employment offices have been scarce, however, thereby restricting the wholesale implementation of individually tailored services.

The vital role of private employers is also obvious in job rotation schemes and part-time pay supplement schemes, which tend to encourage work sharing through voluntary and transitory shifts to leave or part-time work. Given the large number of people who would prefer shorter working time, the strains experienced by many employees during recent years and the increasing need for life-long learning, one would expect such schemes to be popular. However, the take-up of the schemes has so far been very low. This may be due partly to the existence of alternative schemes designed, for instance, to take care of employee's children (home-care allowance combined with child-care leave). Furthermore, employees may consider it too risky to leave their job, in particular if their employers are not keen on these schemes. There seems, therefore, to be a need for some incentives for employers to implement such schemes and to handle the extra burden of hiring and inducting replacement unemployed people.

In the KEKO-project (cf. 4.4.2), there is close co-operation with small and medium-sized enterprises by combining on-the-job training with company-based development ventures under an expert's supervision and guidance. These innovatory elements have been regarded as successful. In some regions, efforts to foster closer co-operation between companies and labour administration in identifying and anticipating vocational needs have also been seen as a very useful tool for planning labour market training by both partners. So far the feedback from

both individual participants, tutors and companies has been positive (Ministry of Labour, 1996e). Due to the difficulties of finding suitable development ventures, the volume of these kinds of schemes has been quite limited. However, for some professionally educated unemployed people with previous work experience, the motivation to work as an unpaid expert in the KEKO-project has been low. The motivation of newly graduated people seeking work experience has clearly been much higher.

5 OTHER POLICIES HAVING AN IMPACT ON THE LABOUR MARKET

5.1 Macro-economic policies

The Government, appointed in April 1995, set itself the objective of halving unemployment and turning central government indebtedness (the ratio of gross debt to total output) into decline by the end of its four-year election period. Strong competitiveness and lower real interest rates were considered to be essential preconditions for sustained economic growth and a permanent reduction in unemployment. The austerity measures which had been implemented by the previous government were maintained and new expenditure cuts totalling FIM 20 billion, or 3.5% of GDP, were agreed by the new government.

The consolidation of public finances eliminated the pressure on interest rates caused by growth in public debt. The easing of monetary policy and lowering of interest rates were further supported by moderate wage settlements in October 1995 (covering a period of more than two years up to February 1998). Long-term interest rates (yields of taxable 5-year Finnish government bonds) fell from 9.3% in the first quarter of 1995, to 6.5% at the year-end. Consequently, marked improvements in fundamental macro-economic conditions were attained, with attention turned thereafter to structural reforms to improve the functioning of the labour market and to encourage working and entrepreneurship.

In September 1995, the Council of State adopted the Finnish convergence programme outlining Finland's potential to fulfil the convergence criteria and describing the measures aimed at satisfying the criteria. The convergence programme was based on the government's political programme which, in some respects - e.g. concerning public finances and the halving of unemployment - is more demanding than the criteria of the convergence programme.

According to the basic scenario of the convergence programme, economic growth was expected to average 3.5% over the five-year period, the growth rate decelerating smoothly from 4.5% in 1996, to 2.5% in 1999. The projection assumes:

- satisfactory international developments;
- real GDP in the OECD countries growing at an annual rate of 2.5% and inflation constant at 2.5%;
- domestic fiscal policy in line with the government's programme; and
- moderate price and cost behaviour.

Finland was projected to have good prospects of satisfying all the convergence criteria within the next few years. Public finances (general government net lending) was expected to be balanced and indebtedness to stabilise as soon as 1996. As to labour market performance, the unemployment rate was expected to be down to 12.5% in 1999. The government's objective of halving unemployment would require a fall of 100,000 in the number of unemployed people.

In autumn 1995, a working group drew up a multi-annual employment programme in line with the recommendations of the European Council meeting in Essen,

outlining the measures to be taken to meet this challenge. On 19 October, the Council of State based its decisions-in-principle on the proposals of this working group. The main measures included the following elements:

- Reductions in the tax wedge by lowering income taxation, especially in respect of low and medium income groups, and cutting employers' social security contributions.
- A relaxation of labour regulation related, for example, to job security and fixed-term employment contracts and diversification of working hours.
- An increase in vocational training.
- Promotion of entrepreneurship.
- Encouragement of building, launching suburban renovation programmes and environmental protection schemes.
- A shift in the main focus of labour market policy from passive measures (granting unemployment benefits) to active measures.

A large number of the measures were estimated to require no additional funds from the State budget, as they would be carried out by reallocating existing appropriations. Since economic growth was also expected to be faster than that specified by the convergence programme criteria, it was expected that slight increases in public expenditure would not jeopardise the attainment of the convergence criteria concerning general government debt.

Since January 1996, economic policy debate has taken place in the context of less favourable economic developments. Weaker economic growth will lead to a greater budget deficit, jeopardising the aim of reducing central government indebtedness during the four-year period. Therefore, in February 1996, the government established new measures for stabilising indebtedness in order to offset the impact of a greater budget deficit. Lower ceilings for central government expenditure in 1997-1999 were agreed and new measures to increase tax income were adopted by abandoning, for instance, the previous plan of reducing value-added tax on food from 1998 onwards.

Unlike previous decisions on the consolidation of public finances, the new ones were received with more disquiet. The advisability of the expenditure ceilings was questioned, in particular given that economic developments could be weaker than expected. In any event, the scope for action on fiscal policy is extremely limited over the next few years; in the short term, monetary policy constitutes the main tool of macro-economic policy.

As to policy co-ordination, some criticism has been directed at the Bank of Finland due to the delayed and excessively cautious measure of cutting short-term interest rates in 1995. The Bank of Finland raised its tender rate, as late as June 1995, to dampen inflationary expectations. The fear seemed to be misplaced, however. The latest figures - March 1996 - show that inflation in Finland, at 0.6% over 12 months,

remained the lowest in the EU. Projections suggest that inflation will remain low throughout 1996 and into 1997.

The monetary authorities are now confident that the official target of 2% underlying inflation (measured by the consumer price index less indirect taxes, subsidies and mortgage interest rates) will be attained, although temporary dampening factors, such as the fall in food prices, are unlikely to exert any influence in the future. Towards the end of 1995, the easing of monetary policy did not generate problems in the market. The Bank of Finland's tender rate was decreased from 6% in September 1995 to 3.75% at the beginning of May 1996. It is generally considered that monetary policy can - and should - be eased still further.

Economic recovery in Finland began at the end of 1993, as nearly two years of strong economic growth in exports were finally reflected elsewhere in the economy. The economic recovery gained momentum in 1994 as domestic demand grew substantially. Aggregate output grew some 4.4% on average, in both 1994 and 1995. A substantial deceleration in economic growth took place in the latter half of 1995, mainly as an effect of the unexpected halt in economic growth in the EU. Its restrictive impact was immediately visible in export industry. The general decline in prospects in Europe also increased uncertainty among households and companies, and thus had a direct impact on domestic consumption and investment demand.

There has recently been a general tendency to produce less favourable short-term economic projections for 1996 and 1997. However, the preconditions for faster growth in years to come do exist; real interest rates have fallen, prices are competitive and household indebtedness has decreased, allowing a revival in the housing market, for instance. Economic growth is generally expected to rebound in the latter half of 1996. This is based largely on a similar scenario of the gradual speeding-up of economic growth in the EU. Despite slower growth, the current account will be in surplus in Finland, the general government deficit is decreasing, inflation is extremely low, the long-term incomes agreement should keep prices down for the next few years and the floating of the markka has not prompted any major turbulence in interest rates. The fact that economic development has been less robust than expected means, however, that the public budget deficit will not be reduced as fast as originally planned. Even so, the government economy will go on improving, and in 1997 the general government financial deficit will probably be one of the lowest in the EU.

It is clear that the poorer economic outlook will result in few positive labour market developments. In particular, unemployment is likely to fall more slowly than expected. Medium-term projections serve to illustrate plausible labour market developments, but they also serve as a guideline in assessing the need for any further measures necessary to attain the target of a halving of unemployment.

Table 18: Medium-term projections on labour market developments

	1995	1996	1997	1998	1999
MEDIUM-TERM PROJECTIONS:					
Convergence programme (Sept 95):					
GDP growth	5.0	4.5	4.0	3.0	2.5
Unemployment	16.7	14.5	13.5	13.0	12.5
Ministry of Labour (Jan 96):					
GDP growth	5.0	4.5	3.5	3.0	3.0
Unemployment	17.2	15.0	14.1	13.1	13.0
Ministry of Finance (Feb 96):					
GDP growth	4.4	3.8	4.0	3.5	3.5
Unemployment	17.2	16.0	14.5	12.5	11.0
Ministry of Finance (June 96):					
GDP growth	4.2	3.0	3.8	4.0	3.5
Unemployment	17.2	16.3	15.4	14.0	12.0
SHORT-TERM PROJECTIONS:					
Res Inst of the Finnish Economy (Mar 96):					
GDP growth		3.0	2.5		
Unemployment		16.5	16.0		
Pellervo Economic Res Inst (May 96):					
GDP growth		2.0	2.5		
Unemployment		17.0	16.5		
Lab Inst for Economic Res (May 96):					
GDP growth		2.0	2.5		
Unemployment		16.3	15.9		
European Commission, DG II (May 96):					
GDP growth		3.0	3.6		
Unemployment		16.3	15.0		
Ministry of Finance (May 96):					
GDP growth		3.0	3.8		
Unemployment		16.3	15.4		

Source for medium-term projections: Ministry of Labour (1996) Labour force 2010, Labour study 130, Ministry of Finance (Feb 1996) Prospects of the Central Government Finance in 1996-1999 and Ministry of Finance (June 1996) Talouspolitiikan linja, Kansantalouden kehitys ja talouspolitiikka vuosina 1996-2000 (Outline of the economic policy. Economic developments and economic policy in 1996-2000).

None of the projections suggest a halving of unemployment by spring 1999. Economic growth in 1995, as well as the most recent forecasts on economic performance in 1996, are clearly worse than in any of the basic scenarios. The most favourable short-term forecasts are those by the European Commission (Directorate-General, II) and by the Ministry of Finance. Total output is expected to grow 3.0% and 3.6%-3.8% in 1996 and 1997, respectively, while the corresponding figures for the unemployment rate are 16.3% and 15.0%-15.4%.

Given these unsatisfactory scenarios, further measures to boost economic growth are sought. There have not been any substantial changes in the employment effects of output growth. The main reason for the diminished employment effect of growth at the macro level is the structural change in the composition of output at the early stages of economic upswing. In the near future, growth in service production and some revival in the construction industry should promote employment despite the distinct slow-down in industrial output. Therefore, the employment effects of output growth, along with the more balanced production structure, are expected to improve in the latter half of the 1990s.

The slow fall in unemployment means that the problem of long-term unemployment has become more serious. Some 10% of the labour force can now be counted as long-term unemployed, if the figures include recurrent unemployment interrupted by short-term periods of work or traineeship. The emphasis on cutting long-term unemployment becomes more of a priority in all structural policies designed to promote job creation.

5.2 Education and vocational training

Safeguarding equal opportunities for education and training has been a primary goal of education policy since the late 1960s. Two major reforms were implemented in the 1970s. Firstly, compulsory education for 7-16 year olds was remodelled on a nine-year comprehensive school. The tenth class in the comprehensive school gives pupils the opportunity to stay in education for a further year. Secondly, upper secondary education was renewed with the aim of providing a student place for all of the age group, either in senior secondary schools or in vocational and professional institutes.

In Finland, responsibility for education rests mainly with the public sector. There are relatively few private educational institutes, and even they receive state support. Spending on public education accounted for 14% of all public expenditure in 1993; this figure is among the highest in the OECD. The Finnish educational system is also characterised by the fact that education and training are mainly provided in educational institutes. In vocational training, both theoretical and practical instruction are usually arranged in training institutes even though compulsory on-the-job training is also offered.

The number of students in regular education has increased sharply. In the early 1990s, enrolment rates were three or four times as high as in 1960, both in senior secondary schools, vocational and professional educational institutes and in universities (Table 19). At present, immediately after comprehensive school, over 90% of young people continue in upper secondary education - more than half of them in general education. Nearly 60% of the age group qualify for a place in university. However, competition for student places is tough and only about one third of the applicants are admitted.

Table 19: Enrolment rates in upper secondary and tertiary education

Year	Senior secondary school students as % of those aged 15-19	Vocational institute students as % of those aged 15-24	University students as % of those aged 20-24
1960	10	8	8
1970	20	12	13
1980	30	18	22
1991	37	28	34

NB: Because of the age groups used, the figures indicate better the change over time than the level of enrolment. In respect of the three-year senior secondary school, for instance, the relevant age group is narrower - being mostly those aged 16-18.

Source: Vartia and Ylä-Anttila (1992), p. 193.

As discussed earlier in Section 1.2.1, the substantial increase in participation in education acted as a buffer against the impact of the deterioration of the labour market position of young people. Recent findings suggest that the benefits of education are clear, even for new labour market entrants. Along with the economic recovery, disparities in unemployment rates by educational level appear to be widening. Moreover, although unemployment rates are much higher among newly qualified people than among those with more work experience, the decline in unemployment is more pronounced among newcomers. Table 20 displays the unemployment rates in 1995 for people newly qualified during the preceding five years. The range of variation is from more than 60% for those with a basic education (admittedly a small group), to about 2% for those with a post-graduate education. In 1990, the corresponding range of variation was narrower, from about 17% to less than one per cent.

Table 20: Unemployment rates of people certified during the preceding five years, 1995, for the 20 to 64 age group

Level of education	Unemployment rate	
	1995	1990
Basic education	62.7%	17.4%
Lower level of upper secondary	32.5%	7.2%
Upper level of upper secondary	26.2%	5.4%
Lowest level of higher education	15.9%	1.8%
Undergraduate level of higher education	10.2%	1.7%
Graduate level of higher education	6.7%	1.4%
Post-graduate education	2.2%	0.6%

Source: Havén (1996)

In recent years, the importance of vocational training has been further emphasised. Since 1991, a system of polytechnics, still at the experimental stage, has been developed in tertiary education. The polytechnics offer theoretical learning, but are also geared to practice learning and to advances in apprenticeship training. The

popularity of this form of training has clearly increased, admittedly from a low starting base. The apprenticeship system was traditionally used on a small scale in adult education. Efforts have been made to draw up apprenticeship contracts in new fields and to widen the system into youth education. At the moment, basic education for students under 20 years of age and further training for students under 25 years of age is developed under ESF. The apprenticeship system was modified in 1995 to lead to a final examination and, if approved, to a qualification.

A significant increase has also taken place in adult education. In open universities, adults can attend basic university education irrespective of their educational background. The credits are similar, and can be accepted as credits towards a university degree. The open university enjoys growing popularity: some 3% of the adult population attend open university every year. Moreover, a network of liberal education institutes covers the whole country, and about 25% of the adult population attends their courses. In addition to general courses, these institutes can now also provide basic and supplementary vocational training.

Vocational adult education consists of staff training, self-motivated training and labour market training. Staff training is arranged and financed by employers for their employees. It is primarily short-term supplementary training, with an average of six training days per annum, per participant. Although, the provision of staff training decreased during the recession, some 40% of employees continue to take this type of training every year.

Self-motivated training is largely further vocational training, where the government and the student share the costs. The opportunities for adults to take such training has been improved by developing the study leave system. To maintain income during education, students can receive an adult study grant, housing supplement and state guarantee for a study loan. New starts in long-term self-motivated vocational training tripled between 1989 and 1993. Participation by adults in these courses increased similarly, amounting to a total of 59,000 participants in 1993, including six-month follow-up courses. However, recent cuts in adult study grants resulted in lower participation in adult training in 1995. In addition to long-term training, nearly 200,000 adults have taken short periods of self-motivated training at vocational institutes.

In vocational adult education, the learning process has until now been structured through a national curriculum. However, a shift is being made towards competence-based examinations. In the spring of 1994, an Act on Vocational Examinations came into force, enabling a person to demonstrate his or her competence irrespective of the way in which it was acquired. Any working experience, as well as training, can be counted as a whole or partial qualification toward a diploma.

Co-operation between educational institutions and industries has increased. Vocational curricula and competence-based qualifications are being prepared in close co-operation with educational committees within each branch. The committees include social partners, teachers' representatives and administrators. In universities, co-operation is organised through project participation.

The volume of adult training, overall, has been regarded as inadequate in relation to ever increasing needs. Moreover, there is a tendency for training to accumulate among those with the best qualifications. This group of people also has the highest expressed need for additional training. The mismatch between expressed need and actual participation in training is greatest among those with lower educational qualifications. This may be taken as an indication of hidden willingness to undertake further education, in particular among the least educated people (Table 21). To provide equal opportunities for adequate adult training, a discussion about regular training under a study insurance scheme has recently been raised.

Table 21: Participation in vocational adult education and expressed need for further education, as percentage of total employees in 1990

GROUP	PARTICIPATION DURING THE PRECEDING 12 MONTHS	EXPRESSED NEED FOR FURTHER EDUCATION
Females	48	57
Males	41	50
18-24 years	36	51
25-29 years	50	59
30-34 years	49	64
35-44 years	48	58
45-54 years	44	49
55 +	28	26
Blue collar workers	27	37
White collar employees:		
- lower level	59	63
- upper level	73	72
Central government	65	65
Local government	56	61
Private sector	39	50
Education level:		
Basic level	28	40
Upper secondary		
- lower level	40	52
- upper level	57	66
Higher level	75	72

Source: Simpanen and Blomqvist (1993) and Simpanen (1993)

In 1989-1994, the number of full-time students increased by 74,000, or by about 30%. Most of the increase occurred in youth education, and to tackle youth unemployment, efforts have been made to improve further the labour market competencies of young people. The government has recognised that the transition from training to working life can be difficult for many young people. A working group consisting of secretary generals of three Ministries was established to facilitate the transition by dissolving the boundary between work and training, through an

increase in apprenticeship training. The group also intended to make it easier for newly graduated people to acquire work experience and to facilitate their integration into working life through an increase in employment subsidies for newly qualified people.

In March 1994, the working group proposed that starter places in basic and further training (including apprenticeship training) would be increased by 33,000 in 1994 and that the number of starter places would exceed the initial level by 34,000 in 1995 (Prime Minister's Office, 1994). The implementation of the proposals was delayed and the targets have not been attained. However, the aim to increase the number of training places has not been abandoned; on the contrary, it forms a vital part of the multi-annual employment programme, which was prepared for the meeting of the European Council in December 1995.

Higher education and research is regarded as a vital part of Finland's development strategy. According to the long term objectives, universities and polytechnics will cater for 60-65% of the age group. The policy concerns in education are expansion of the scope of programmes, provision of multi-disciplinary learning and wider choice for individuals. The main aims in the near future are the flexibility of the educational system as a whole, the development of evaluation systems and widening the use of pathways. A system of lifelong learning is to be created, where educational modules are approved as part of a qualification.

5.3 Tax and benefit

By European standards, the gross tax rate (total taxes per GDP) in Finland is not high, particularly if one takes into account the fact that almost all income transfers are tax liable, unlike other countries. The comparison between different time periods is complicated by structural changes in taxation in the early 1990s, such as replacing tax reductions based on the number of children with higher income transfers in the form of child benefits. These changes did not affect the average net tax rate, although income taxation is very high. It is one of the highest in the EU, comparable to that in Denmark, Netherlands, Germany and Belgium (Lehtinen, 1996b). Due to the sharp rise in unemployment expenditure in the early 1990s, income taxation was further tightened to avoid excessive deficits in public balances. Although capital taxation has also been raised, the difference between the two is particularly large. There is a uniform tax rate - 28% since 1996 (25% earlier) - for both capital income and profits. Steps to alleviate the taxation of earned income started in 1996, and in relation to the incomes policy settlement concluded in September 1995, the government decided to continue to reduce income taxation in 1997.

To mitigate increases in non-wage costs, the employers' share of unemployment insurance expenditure was decreased in 1993, from 47% to 32%. The corresponding rise in the share funded by central government was financed by a special earmarked unemployment tax. In addition to the contribution paid by the insured, a general unemployment insurance contribution was introduced for all employees. Since July 1993, the employers' contribution was graded so that a lower contribution

was paid for the first million of the payroll (since 1995, for the first five million). As there is no funding in the finance of unemployment insurance, the total payroll taxes paid by employers, employees and insured people increased greatly during the depression - from a low of 0.67% in 1990, to 8.3% in 1994. This was a significant contributory factor in the rise of the tax wedge at the time of soaring unemployment in the early 1990s.

In spring 1996, the government decided on new cuts in unemployment insurance benefits, from 1997 onwards. It was simultaneously agreed that the employers' share of unemployment insurance expenditure would be gradually increased, up to the original level of 47%, by 1999. To mitigate the tendency for unemployment insurance contributions - and hence the tax wedge - to exhibit a harmful counter-cyclical variation, there has been some discussion on the advisability of shifting towards a partially funded financing scheme for unemployment insurance (Kiander, 1996). To eliminate most of the pressure for increases in employment pension contributions in the future, substantial amendments to the accrual of employment pensions were agreed in 1995.

Table 22: Unemployment insurance contributions (as percentage of pay) and the unemployment rate

YEAR	EMPLOYER	INSURED	EMPLOYEE	TOTAL	UNEMPLOYMENT RATE
1985	0.80	0.09	-	0.89	5.0
1986	0.95	0.11	-	1.06	5.4
1987	1.30	0.15	-	1.45	5.1
1988	1.20	0.14	-	1.34	4.5
1989	0.85	0.10	-	0.95	3.5
1990	0.60	0.07	-	0.67	3.4
1991	1.40	0.16	-	1.56	7.6
1992	3.70	0.43	-	4.13	13.1
1993*	5.70	0.70	0.20	6.60	17.9
1994*	5.40	1.03	1.87	8.30	18.4
1995*	4.50	1.03	1.87	7.40	17.2
1996*	3.00	1.03	1.50	5.53	..

*Since 1993, the employers' contribution has been an estimate of the average contribution for a private employer.

In June 1994, there was a shift from turnover tax to value-added taxation. The change extended the coverage of consumption tax to many personal services that were previously exempt from taxation. The full tax rate of 22% applies also to restaurants and staff canteens. Amid a prolonged depression in the domestic market, the reform - or at least its timing - was generally considered to be harmful. For foodstuffs, the value-added tax rate is normally 12%, but a higher rate of 17% will be applied temporarily in 1995-1997. Other indirect consumption taxes for households - such as excise taxes or user charges for cars - have also been raised.

There has also been great concern about the problem of incentive traps. The problem of very high effective tax rates among some particular groups of people - like low-income families with small children or unemployed people - may arise from the combined effects of income taxation, means-tested income transfers and graded fees for public services (like children's day-care). A working group charting these problems made its proposals on measures to abolish the most apparent defects in April 1996. The measures included alleviation of the taxation of low earnings, alleviation of means-testing in unemployment benefits with respect to earned income, as well as changes in the schemes for support care for small children. Efforts have also been made to identify any remaining inequalities in entitlement to social security depending on the form of employment; in the existing schemes, thresholds either on working hours or earnings may place atypical forms of employment at a disadvantage in respect of annual or sick leave and employment pension.

5.4 Industrial policies

According to the political programme for government policy in 1995-1999, the government will promote competitiveness based on innovations, research and development, skilled labour and high standards of environmental protection. The creation of new jobs in SMEs and service enterprises is an important goal. The government is also committed to promoting job-creation in recycling and other areas of environmental protection. Self-employment will be supported by promoting service co-operatives.

Active industrial policy also concerns state-owned companies, which will be partly privatised. However, the state will retain its majority ownership in some companies - like IVO, Kemijoki, Vapo and Neste - that are vital for the nation's energy supply. The value of State property amounts to FIM 120 billion, of which FIM 50 billion is in equities. Parliament has empowered the authorities to sell equities up to FIM 25 billion.

The multi-annual employment programme spelt out policies to enhance entrepreneurship and encourage local initiatives. Several working groups have been set up, under tight deadlines, to draft detailed proposals on new measures. The national productivity programme, which was launched in 1993 to raise productivity by developing the quality and flexibility of working life, will continue until spring 1999. A similar programme was introduced in 1996, with a focus on the development of skills and innovations based on local initiatives. The latter involves research-driven development within enterprises in co-operation with universities and research institutes. Its core features are the development of multi-skilled work and teamwork in organisations capable of using networking methods. Finally, an action programme for developing the information society was initiated. Its aim is to provide all citizens with the basic skills and technical opportunities to use the services of the information society.

Finland has reached advanced levels of development, implementation and diffusion of telecommunications systems and services. The percentage of employees

using information technology at work rose from 17% in 1984, to 55% in 1993. The proportion of INTERNET users among the population is the highest of all EU countries. In 1994, 26% of Finnish households possessed a PC; Denmark is the only EU state with a higher figure.

As to intangible investments, the volume of investments in research and development (as a percentage of GDP) is relatively high. Sweden and France are the only EU countries with higher investment rates and, in Finland, efforts are being made to increase such investment further.

There have been ambitious efforts to improve the economic performance of the manufacturing sector, through the use of modern IT products and concepts. By 1994, there were 38 industrial robots for every 10,000 people employed in manufacturing. This was the fourth highest figure in Europe. Flexible manufacturing systems have been rapidly penetrating the engineering industry. Reflecting these trends, the growth of manufacturing output is based heavily on the increase of total factor productivity rather than increases in labour or capital inputs. The level of labour productivity in manufacturing is now one of the highest by international standards. This is due in part to the substantial growth in capital intensity over the last few years. In other sectors, productivity performance is not as positive. The OECD has argued that less attention has been given, in Finland, to the service sector and how it might benefit from greater use of information technology (OECD, 1992).

Service enterprises currently account for 70% of all SMEs. The significance of SMEs as a group of employers is highlighted by the fact that about 800,000 people work in enterprises of less than 500 employees. Furthermore, micro-businesses, employing less than 10 people, provide work for 300,000 people. A new programme for SME policy was launched in early 1996 by a working group commissioned by the Ministry of Trade and Industry. The programme addressed the administrative procedures that place a disproportionate burden on SMEs. Proposals for easing this burden included elimination of various permit procedures, increases in joint use of public data files and simplification of the procedures for levying employers' social insurance contributions. An information campaign targeted at SMEs, to publicise the substance of labour legislation and collective agreements, will also be carried out in collaboration with labour market organisations.

There is comprehensive reform of the Hours of Work Act, intended to improve operating conditions for SMEs. Specific aims include the extension of flexible working time arrangements (as outlined in collective agreements), to enterprises that are not obliged to observe the collective agreement in their own field.

Ways of reinforcing the capital structure and alleviating the problem of insufficient securities for loans will also be investigated. The Finnish Guarantee Board participates in risk-sharing by granting guarantees. The guarantees used to be restricted to industrial enterprises, but were recently extended to intangible investments by service companies. However, the direct public funding of SMEs is mainly targeted only at industrial enterprises. This emphasis was reinforced in the new programme for SME policy. The volume of direct state aid to enterprises - consisting of tax

concessions and transfer payments - has traditionally been high in Finland, with a strong emphasis on regional aspects in the allocation of the funds (one third of total aid). The structure of the business subsidy system is also of concern, with too much aid directed to support normal business activities at the expense of supporting research and development and training (Raatikainen, 1993).

There has been a rapid growth of internationalisation during the past 10-15 years, dominated by the largest manufacturing firms. The 30 largest Finnish firms had 40% of their employment abroad in 1993, compared to 15% in 1985. Moreover, knowledge intensive firms have been increasing their foreign production faster than basic industry firms (Braunerhjelm et al, 1996). The favourable home country effects of outward foreign direct investment (FDI) seem to have diminished greatly, however. The rapid increase in FDI in nearby former socialist economies has contributed to the growth of internationalisation. Despite these developments, policy thinking continues to emphasise the favourable dynamic effects of integration on economic growth. Industrial policy has, therefore, been aimed at promoting the strength and competitiveness of Finland's technical and social infrastructure, in order to attract investment by both domestic and foreign firms. This implies that the policy emphasis is moving more and more from product markets to factor markets.

6 THE NATIONAL DEBATE: POLICY PERSPECTIVES

6.1 Macro-economic conditions

In recent years, the fundamental macro-economic conditions in Finland have improved markedly. Slower than expected economic growth can be attributed to the unexpected halt in economic growth in Europe and may also be seen as a persistent after-effect of a profound macro-economic disturbance. It has become a commonplace, however, to interpret the problems in the economy as a structural crisis. Moderate pay developments, fiscal consolidation, low inflation, exchange rate stability and the resultant lower level of interest rates are then taken as necessary but not sufficient conditions for a significant reduction in unemployment. Subsequently, in line with this view, considerable easing in income taxation and further deregulation in the labour market are called for. Scope of tax policy measures and reforms in the labour market make up the two major issues characterising the policy debate in Finland. Work-sharing is also an emerging issue.

6.2 Income taxation

The government has decided that fiscal consolidation should be achieved without any increase in the overall level of taxation. The structure of taxation is, however, to be changed in order to facilitate employment. In practice, this involves taking steps to ease income taxation and increase environmental and other indirect taxes. In addition, the capital and corporate tax rates were raised from 25% to 28% in 1996. An easing of the taxation of earned income was initiated in 1996, through a reduction of employees' social insurance fees. The government has agreed similar reductions in 1997 and 1998, as well as relaxation of tax scales in 1998. Beside capital and corporate taxes, taxes levied on fuel as well as on gifts and inheritance were raised and extra allowances for interest payments were curtailed in order to finance these changes in 1996. The funding of income tax changes in the future is still to be decided.

Scope for further shifts in the structure of taxation seem to be quite limited. The government is committed to no increases in the general rate of value-added taxation in 1996 and 1997. According to the Ministry of Finance, existing environmental taxes like energy taxes cannot be raised further without jeopardising the competitiveness of manufacturing industry. International co-ordination of energy taxes is considered a prerequisite for any major advances. The possibility of any increases in environmental taxes is focused chiefly on waste and final consumption. However, such potential tax revenues are estimated to be quite modest.

The convergence programme adopted by the government in autumn 1995 stated that despite substantial reductions in central government expenditure, there is barely scope for a general reduction in tax rates in the near future. However, demands for substantial easing in income taxation have become more common among economists and politicians, although such demands remain highly contentious.

A working group established by the Economic Council discussed fiscal policy in a report delivered in February 1996. The group argued that under conditions of rapid increases in public indebtedness, the expansionary effects of the large public deficits were less favourable than in circumstances in which there is better control of public indebtedness. The effect could not be explained solely by the deficit-driven rises in interest rates, but it also worked through increases in uncertainty and deterioration in households' expectations about future disposable income. The working group emphasised the importance of a consistent fiscal policy with no risks to be taken in public balances, either through expenditure increases or tax cuts. A stable economic policy was considered vital in order to avoid harmful rises in interest rates and to dispel the current lack of confidence among households and businesses.

In the ongoing policy debate, the issue is far from settled, however. At one end, considerable across-the-board easing in income taxation is called for, even at the expense of major cuts in public expenditure. At the other end, substantial cuts in public expenditure in order to finance tax reductions are dismissed and a high priority is placed on targeted measures for reducing the tax wedge. Two types of targeting are advocated - targeting people on low incomes and targeting the consumption of personal services. Targeting low-income people, for example through work-related tax allowances, is based on two premises. First, long-term unemployment constitutes the worst structural problem, and the ongoing tendency towards labour market polarisation threatens to aggravate the problem. Second, the highest marginal tax rates apply to those with the lowest incomes, not the highest incomes, because means-tested transfers give rise to an implicit positive marginal tax rate. If the benefits of government programmes were work-related, either directly or via taxes paid, the effective marginal tax rate would be lowered.

Enhancing the employment-intensity of growth, in turn, calls for the targeting of personal services through, for example, a selective reduction in value-added tax rates or grading the level of employers' mandatory social security contributions. There is some further discussion about other demand-side measures to provide an inducement for firms to hire low-skilled workers. One suggestion has been to make employers' payroll taxes progressive, through individual grading relating to monthly pay. It is claimed that this could also induce employers to offer a wider selection of part-time employment opportunities. This kind of measure may be viewed primarily as an income maintenance scheme, but the argument is that it could be one with fewer effects on labour force participation than would result from most welfare programmes.

6.3 Labour market deregulation

Labour market regulation in Finland has differed little from that in other European countries. In line with the general tendency in Europe to search for a new balance between employment protection and flexibility, much concern in Finland has focused on designing structural reforms that may improve the functioning of the labour market in the medium term. As a result, a few amendments concerning pre-notification periods, fixed-term employment relationships and flexible working time arrangements have been recently introduced or agreed upon, and a few more reforms are being planned.

Instead of using such incremental reforms, a more profound deregulation has been called for as a remedy to exceptionally high unemployment. Most of the recommendations aimed at increasing flexibility involve the removal of existing constraints that are thought to worsen the functioning of the labour market. Eliminating negative influences - rather than accentuating positive ones through training, mobility or active labour market policies - has, therefore, become the basis for improving the operation of the labour market.

The pursuit of deregulation focuses chiefly on employment security provisions and determination of wages. Criticisms of the universally binding collective agreements can be interpreted as a demand for greater room to adjust wage changes to local workplace conditions and for lower minimum wages. At present, firms can recruit new employees at lower wages than those paid to existing staff, as long as the pay is in line with minimum standards laid down in collective agreements. However, in addition to initial pay levels, collective agreements also prescribe subsequent minimum pay increases irrespective of the level of actual pay relative to scheduled pay. There is some consensus to move towards local pay bargaining, as long as there is adherence to the minimum standards on scheduled pay.

The issue of minimum wages is more controversial. Wage differentials have increased substantially since the mid-1980s and the risk of young people being particularly hard hit by minimum wages seem largely to have been averted. The potentially detrimental effects have been mitigated by setting minimum wages for young people at a lower level than those for adults, and by scaling employers' social security contributions by age (in firms employing at least 50 people). Such measures clearly favour the employment of young people.

A further issue concerning minimum wages has been highlighted by the OECD Jobs Study. This called for a reassessment of the role of minimum wages as an instrument to achieve re-distributive goals and to switch to more direct measures. Abolishing minimum wages by increasing income transfers is a further proposal. However, it is also argued that income transfer schemes emphasise, rather than reduce, the role of minimum wages. The point is that minimum wages function to prevent social welfare from being transferred to employers in the guise of low pay. If so, minimum wages may be an essential element in any strategy involving social welfare and labour market policies, if the package is to be both socially equitable and economically efficient.

Minimum wages have multiple functions, including that of raising productivity. Low wages encourage low productivity and favour enterprises unconcerned with long-term employment relationships and skill upgrading. Yet an eye for the long-term may be important for dynamic efficiency - that is, for increasing the volume and quality of productive resources available to the economy in the long run.

6.4 Work sharing

Clearly, a major part of the pressure for increased flexibility of working hours has come from firms. They have sought to increase the flexibility of hours of work so as to match increased variations in product demand. Flexible working time arrangements have been increasingly introduced through collective agreements and the scope of action will be extended by the comprehensive reform of the Hours of Work Act.

The government has introduced policies designed to improve employment by means of reductions in the hours of existing employees on a voluntary individual basis. Such measures include the job rotation scheme, part-time pay supplement, part-time pension and 6+6 hours shift work. So far, the take-up of such schemes has been rather low, partly as a result of economic factors and partly because of employees' concerns to avoid giving their employers the impression that they lack commitment. Employers themselves are not very keen to promote working time arrangements that include an element of individual choice. Employers' organisations also resist general reductions in regular working hours. As employment trends show improvements, the idea of work sharing gains popularity. Since the voluntary basis of the arrangements has hitherto led to tensions, it may be that a more prescriptive approach can be put on the agenda.

Results from recent opinion polls suggest that there is willingness amongst employees to shorten working hours, at the expense of reductions in wages. Moreover, in the last two decades, reduction of annual working hours has slowed markedly. However, there has consistently been a large mismatch between people's actual and preferred working time arrangements. There is little part-time working overall, but with considerable variation between sectors. Indeed, from the employees' point of view, there is excessive part-time work in some branches like retail and catering. Uniform approaches may involve the risk, however, that the very diversified needs and preferences of individuals, employers and society are met in an unsatisfactory way.

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ANNEX

Table A1: Total population (1,000) by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 0-14	475	465	471	476
Aged 15-19	187	172	147	160
Aged 20-24	187	185	171	148
Aged 25-49	844	897	937	965
Aged 50-64	409	412	408	413
Aged 65-74	233	228	235	251
Aged 75+	133	156	196	207
MALES				
Aged 0-14	496	487	492	498
Aged 15-19	195	179	154	167
Aged 20-24	197	194	177	155
Aged 25-49	879	937	979	1003
Aged 50-64	338	362	379	397
Aged 65-74	147	141	151	178
Aged 75+	60	67	85	89

Source: Statistics Finland, Population Statistics.

Table A2: Labour force (1,000) by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 15-19	68	64	56	38
Aged 20-24	128	132	116	83
Aged 25-49	710	783	811	819
Aged 50-64	223	240	223	241
Aged 65-74	13	11	7	5
MALES				
Aged 15-19	84	63	55	39
Aged 20-24	140	141	130	99
Aged 25-49	823	888	919	923
Aged 50-64	228	230	227	240
Aged 65-74	25	15	12	9

Table A3: Employment (1,000) by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 15-19	58	56	52	27
Aged 20-24	120	123	111	59
Aged 25-49	685	759	792	697
Aged 50-64	212	225	216	200
Aged 65-74	13	11	7	5
MALES				
Aged 15-19	73	54	49	26
Aged 20-24	131	130	121	70
Aged 25-49	792	849	888	783
Aged 50-64	218	217	219	193
Aged 65-74	25	15	12	9

Table A4: Unemployment (1,000) by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 15-19	9	8	4	11
Aged 20-24	9	9	5	23
Aged 25-49	25	25	17	122
Aged 50-64	10	14	7	42
Aged 65-74	-	-	-	-
MALES				
Aged 15-19	11	10	6	13
Aged 20-24	8	12	9	30
Aged 25-49	32	39	30	141
Aged 50-64	9	13	8	47
Aged 65-74	-	-	-	-

Table A5: Labour force participation rates by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 15-19	36.2	37.1	38.0	23.8
Aged 20-24	68.5	71.4	68.2	55.6
Aged 25-49	84.1	87.3	86.6	84.9
Aged 50-64	54.5	58.3	54.7	58.4
Aged 65-74	5.6	4.9	3.0	2.0
MALES				
Aged 15-19	43.2	35.4	35.7	23.3
Aged 20-24	71.0	73.0	73.2	63.9
Aged 25-49	93.6	94.8	93.9	92.0
Aged 50-64	67.5	63.5	59.9	60.5
Aged 65-74	15.0	10.8	7.8	5.0

Table A6: Unemployment rates by age and gender, 1980-1995

	1980	1985	1990	1995
FEMALES				
Aged 15-19	14.0	12.9	7.0	29.8
Aged 20-24	6.7	6.9	4.4	28.0
Aged 25-49	3.5	3.2	2.1	14.9
Aged 50-64	4.5	5.8	3.1	17.4
MALES				
Aged 15-19	13.1	15.4	10.3	34.1
Aged 20-24	6.1	8.3	7.3	30.0
Aged 25-49	3.9	4.4	3.3	15.3
Aged 50-64	3.9	5.6	3.5	19.6

Table A7: Changes in labour force, employment and unemployment by region (1,000 people), 1980-1995

	1980	1990	1995	Change 1980-90	Change 1990-95
Labour Force					
Uusimaa	619	700	702	+81	+2
Rest of:					
Southern Finland	887	899	871	+12	-28
Central Finland	557	565	543	+8	-22
Northern Finland	380	390	381	+10	-9
Country	2442	2555	2497	+113	-58
Employment					
Uusimaa	602	691	610	+89	-81
Rest of:					
Southern Finland	848	867	717	+19	-150
Central Finland	532	542	441	+10	-101
Northern Finland	347	367	299	+20	-68
Country	2328	2467	2068	+139	-399
Unemployment					
Uusimaa	17	9	92	-8	+83
Rest of:					
Southern Finland	39	32	154	-7	+122
Central Finland	25	23	102	-2	+79
Northern Finland	33	23	82	-10	+59
Country	114	88	430	-26	+342

Source: Statistics Finland, Labour Force Survey.

Table A8: Employment and the proportion of women by occupation, 1994

	% OF TOTAL EMPLOYMENT	% OF WOMEN IN OCCUPATION
Technical, scientific, juridical, humanistic and artistic work	15.2	42.4
Health care and social work	12.6	88.4
Managerial, administrative and clerical work	16.3	64.3
Commercial work	9.6	54.7
Agricultural, forestry and fishing work	8.3	34.3
Transport and communication work	6.2	19.5
Manufacturing, machine operation, mining and quarrying and construction work	20.3	17.9
Service work	11.0	66.3
All occupations	100.0	48.5

Table A9: Main reasons for working part time (as percentage of total part-time employed, aged 15-64), 1980-1993

Main reason	1980	1989	1993
Lack of work or difficulty in obtaining a full-time job	17.7	7.1	45.8
Home-making or care of children	22.5	16.0	10.7
Ill health or age	8.9	7.1	7.3
Education or training	13.0	28.9	20.8
Economically not necessary to work longer hours	6.5	4.3	2.4
Nature of work	13.6	17.6	9.1
Other reasons or unknown	17.8	19.0	3.9

Source: Statistics Finland, Supplementary Labour Force Survey

Table A10: Fixed term employment contracts by employer, age, tenure of service and gender (as percentage of total employees, aged 15-64), 1982-1993

	1982	1989	1993
Current contracts:			
Total	11.3	11.9	13.5
Central government	14.9	13.2	17.7
Local government	19.5	21.6	19.4
Private sector	8.3	8.6	10.2
Aged 15-24	26.5	45.5	..
Aged 25-34	13.9	18.6	..
Aged 35-44	8.3	8.6	..
Aged 45-54	6.4	5.3	..
Aged 55-64	5.2	5.1	..
Current contracts with a tenure of:			
less than a year	..	37.8	60.4
1-2 years	..	16.9	29.7
at least 3 years	..	2.9	3.5
Women	13.3	15.3	14.7
Men	9.3	8.7	12.3

Source: Statistics Finland, Supplementary Labour Force Survey

Table A11: Unemployed jobseekers (temporary laid-offs excluded) by the duration of current unemployment spells in Finland, as a percentage of total unemployed, 1981-1995

Year	Duration of the current unemployment spell				Average
	-12 weeks	13-26 weeks	27-52 weeks	53- weeks	
1981	53.0	21.6	14.4	11.0	24
1982	49.6	22.5	14.9	11.5	25
1983	47.4	22.0	17.3	13.3	27
1984	48.2	22.1	17.2	12.5	27
1985	48.7	23.2	18.0	10.2	25
1986	46.3	23.1	19.7	10.9	25
1987	47.3	22.4	17.5	12.8	26
1988	51.0	22.1	16.8	10.1	24
1989	55.5	22.3	15.5	6.6	20
1990	61.3	21.9	13.4	3.2	15
1991	54.0	26.4	16.8	2.7	16
1992	39.3	27.6	24.9	8.2	22
1993	31.0	24.3	26.3	18.4	30
1994	27.9	21.0	24.0	27.1	39
1995	28.4	20.2	21.3	30.1	45

Note: Older people retired on the unemployment pension scheme are not included in the unemployment figures.

Table A12: Relative semi-annual outflow rate from long-term unemployment (as percentage of total long-term unemployed) from the beginning of 1991 to mid-1995

Period	Terminated spells of LTU (1)	Long-term unemployed (2)	Total (3)=(1+2)	Relative outflow rate (1/3)*100
1991. 1-6	11 519	3 330	14 849	77.6
1991. 7-12	15 509	6 500	22 069	70.5
1992. 1-6	32 960	17 020	49 980	65.9
1992. 7-12	52 236	35 300	87 536	59.7
1993. 1-6	35 099	62 800	97 899	35.9
1993. 7-12	49 639	97 600	147 239	33.7
1994. 1-6	68 622	120 950	189 572	36.2
1994. 7-12	72 303	132 700	205 003	35.3
1995. 1-6	65 619	136 600	202 219	32.4

Source: Statistics from the Ministry of Labour.

Table A13: Registered employers and enterprises subject to turnover tax in 1984-1993

Year	Number of employers	Personnel	
		Number	Annual Change
1984	98 900	1,322 000	
1986	104 700	1,330 000	
1988	117 800	1,356 000	
1989	122 700	1,372 000	+1.2%
1990	129 000	1,377 000	+0.4%
1991	126 800	1,257 000	-8.7%
1992	125 700	1,131 000	-10.0%
1993	117 300	1,037 000	-8.3%

Note: To be included, firms must operate for at least six months and have a turnover of at least FIM 47,000

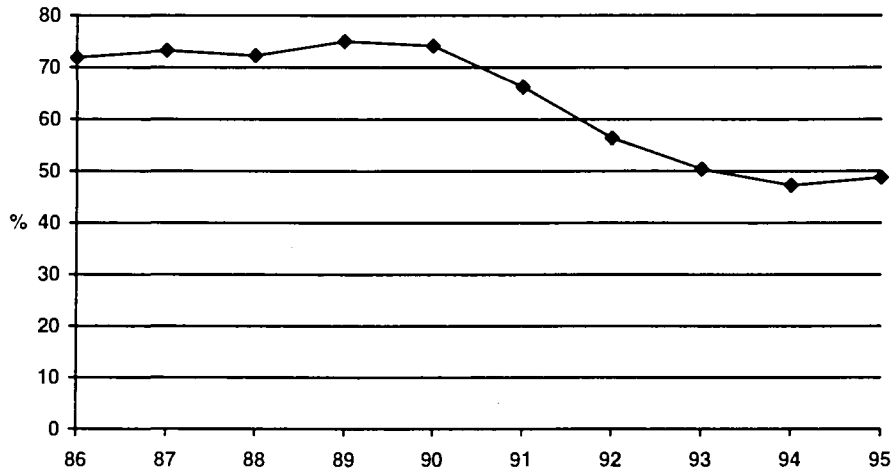
Source: Statistics Finland, Business Register.

Table A14: Earnings dispersion in some OECD countries by gender

Country	Year	D9/D5		D1/D5	
		Females	Males	Females	Males
Finland	1990	1.46	1.60	0.62	0.58
Germany	1990	1.58	1.65	0.66	0.71
Japan	1990	1.63	1.73	0.70	0.61
Italy	1987	1.29	1.56	0.64	0.75
Canada	1990	1.75	1.75	0.44	0.44
Australia	1991	1.49	1.59	0.75	0.70
Austria	1989	1.79	1.65	0.52	0.60
Belgium	1990	1.32	1.37	0.73	0.73
France	1991	1.69	2.11	0.67	0.66
Netherlands	1990	1.48	1.65	0.74	0.72
Sweden	1991	1.40	1.57	0.77	0.73
United Kingdom	1991	1.93	1.99	0.62	0.59
United States	1989	2.15	2.14	0.44	0.38

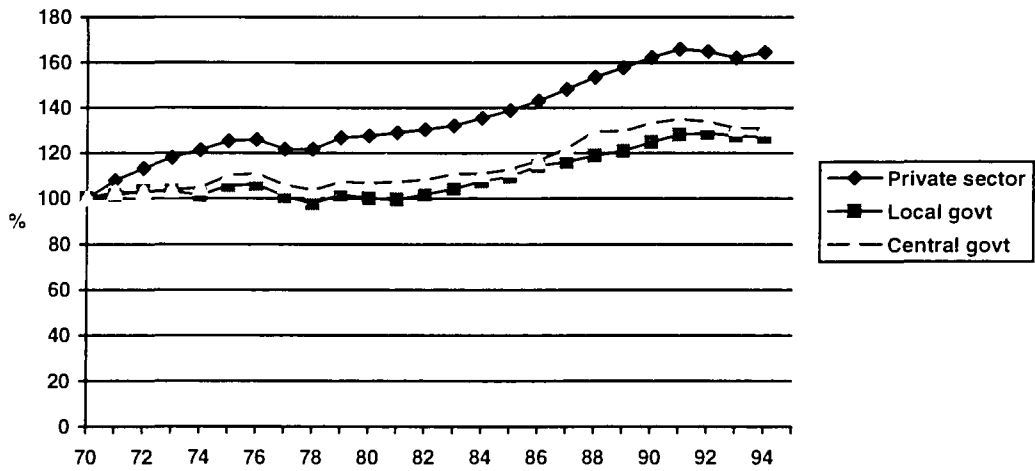
Source: OECD (1993) and Statistics Finland

Chart A1: The employment rate of young people (the share of employed of the population in the age group) in relation to the employment rate of adults aged 25-74, 1986-1995



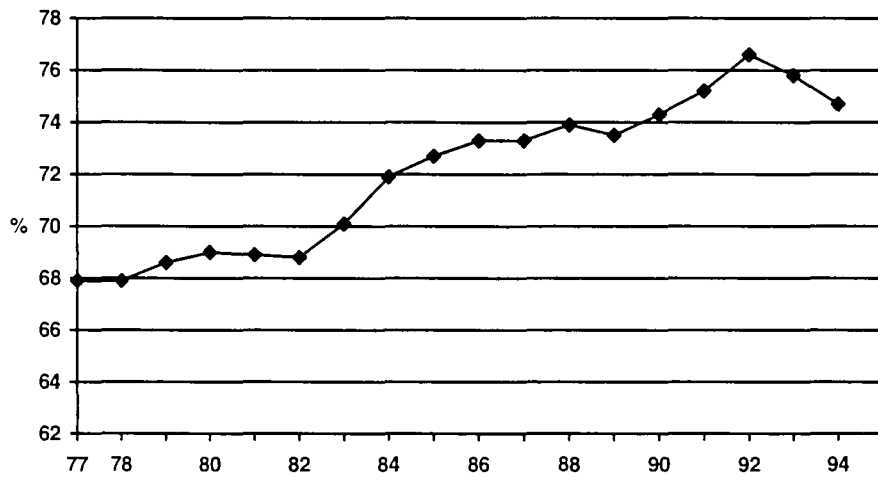
Source: Statistics Finland, Labour Force Survey.

Chart A2: Developments in real wages and salary earnings by sector of employer, 1970-1994



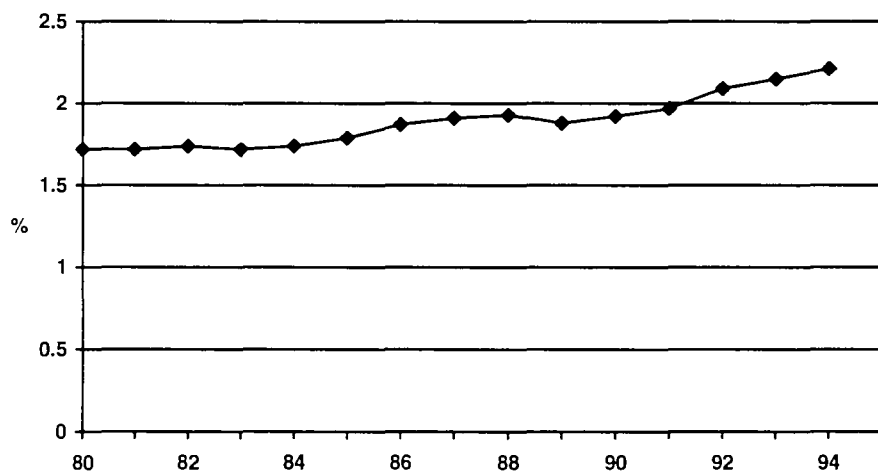
Source: Statistics Finland, Index of Wages and Salary Earnings and Consumer Price Index.

Chart A3: Women's earnings relative to men's earnings, 1977-1994



Note: Data refers to total annual wages and salary earnings of people engaged in full-time work for the whole year.
Source: Statistics Finland, Distribution of Incomes Statistics.

Chart A4: The ratio of product to consumption pay rise from 1980 to 1994



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