

The labor market in Finland, 2000–2016

An almost decade-long economic stagnation left an unemployment problem for an aging society

Keywords: real earnings, unemployment, Finland

ELEVATOR PITCH

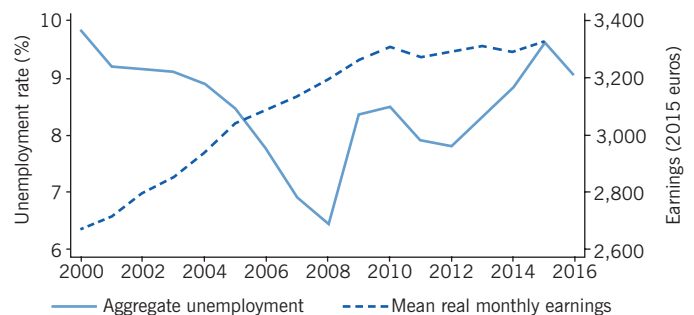
Finland's population is aging rapidly by international comparison. The shrinking working-age population means that the burden of increasing pension and health care expenditures is placed on a smaller group of employed workers, while the scope for economic growth through increased labor input diminishes. Fiscal sustainability of the welfare state calls for a high employment rate among people of working age. Recent increases in employment among older groups contribute favorably to public finances, but high overall unemployment and a large share of the long-term unemployed are serious concerns.

KEY FINDINGS

Pros

- + Labor force participation and employment rates of older groups have increased considerably.
- + Although unemployment is at a relatively high level in the aftermath of the financial crisis and subsequent recession, it could be much higher, particularly considering the larger effect of the recession in the 1990s.
- + The gender wage gap has declined, although this is partly due to job losses among men in the recession years.
- + Wage inequality has remained stable and is still low compared to most other advanced countries.

Aggregate unemployment rate and real average earnings



Source: Statistics Finland. Unemployment rate online at http://tilastokeskus.fi/til/tyti/tau_en.html. Real average earnings based on authors' own calculations using data from Structure of Earnings Statistics.

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Cons

- The employment rate among the working-age population is low compared to other Nordic countries.
- Long-term unemployment, underemployment, and disguised unemployment have increased over the past few years.
- GDP is still below its 2008 level and real earnings have not increased since 2010.
- Some indicators point to a growing gap between the skills needed in new jobs and the skills possessed by unemployed job-seekers.

AUTHORS' MAIN MESSAGE

In 2016, the Finnish economy finally returned to a strong growth path after an almost decade-long stagnation. However, the employment rate remains well below the government's target of 72% for 2019. The recent economic downturn has left a difficult legacy: unemployment is 9% and a large share of job-seekers has been without a job for over a year. Moreover, a significant part of unemployment may be structural. Several labor market reforms to increase employment have already been implemented, but new ones, such as promoting longer working careers and flexible work arrangements, increasing flexibility in wage setting, or encouraging immigration, may be needed.