

# LABOUR FLEXIBILITY

Pertti Koistinen and Werner Sengenberger (eds)

Labour Flexibility  
a Factor of Economic and Social  
Performance of Finland  
in the 1990s



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## List of Contributors

*Tuukka Arosara*, Graduate Student of Sociology at the University of Joensuu and researcher at the Karelian Institute, University of Joensuu.

*Janne Antikainen*, MSc. Ministerial Adviser, Ministry of the Interior, Finland. Research interests: Urban and regional development, urban policy and economies, regional development indicators. Previous post as researcher at the University of Joensuu and the Nord-Regio Institute in Stockholm.

*Arja Jolkkonen*, Dr., Senior Researcher at the Karelian Institute, University of Joensuu. Specialisation on labour and labour market studies and methodological issues of local labour markets, functioning of labour markets and individual strategies in labour market competition.

*Raija Julkunen*, Dr., Senior Lecturer of Social Policy at the University of Jyväskylä. She has specialised in social policies, labour and gender issues, working time policies and general theory of welfare state having more than 100 publications. The recent book deals with the reforms of welfare state in the 1990s.

*Anne Karjalainen*, Post-graduate Student of Statistics at the University of Oulu, researcher at the University of Lapland.

*Riitta Kilpeläinen*, graduate student of Sociology at the University of Joensuu and researcher at the Karelian Institute, University of Joensuu. Specialising in the field of sociology of education and labour markets.

*Pertti Koistinen*, Professor of Labour and Social Policy, University of Tampere. Research Interest: Labour and Labour Market policies, comparative studies on European employment systems and employment policies. More than 100 publications. Author of university textbook on “The Foundations of Labour policies” (in Finnish). The recent Ashgate Publication editorial work for “Working Europe” from 1999. Contributor of ETUI publication “Manifesto Social Europe” (2001).

*Arja Kurvinen*, Dr., Senior Researcher at the Karelian Institute, University of Joensuu. Specialisation on local labour markets, local employment initiatives and social issues of unemployment.

*Sirpa Martti*, Post-graduate Student of Sociology, and Researcher at the University of Lapland

*Ritva Linnakangas*, Dr., Senior Researcher at the University of Lapland. The author of several publications on labour and labour markets.

*Jouko Nätti*, Dr. and Dozent in Social Policies, senior researcher at the University of Jyväskylä. He has a very large experience studying labour markets, precarious work and working times on the national and international level. He has close 100 publications and recent ones concentrates on shortening and flexibilisation of working times.

*Werner Sengenberger*, Ph. Dr., Former Director of Employment Department of ILO (Geneve). Retired 2001. Published extensively in the areas of labour market theory and policy, industrial organisations and industrial policy, industrial and labour relations, globalisation and regional development, and international labour standards. Presently consultant to international organisations.

*Asko Suikkanen*, Professor of Sociology at the University of Lapland. An academic writer who have published a lot (more than 100 public.) on labour and social issues and supervised academic works on structural change and longitudinal studies on life-course. The resent books specialised to tackle the social and economic change of Finland in the 1990s.

*Perttu Vartiainen*, Professor of Human Geography and Rector of the University of Joensuu. Wide experience as academic writer on regional differentiation and regional policies on national and European level. Author of more then 100 publications and many of them has been published in international publications.

*Seija Virkkala*, Dr. and Dozent in Regional Studies, Senior Researcher at Chydenius Institute, University of Jyväskylä. She has published a lot on regional and local development, industrial development and structural fund policy,

## Preface

Among the industrialized countries, Finland stands out with exceptionally high economic growth during the second half of the twentieth century. The rapid recovery from the deep recession of the early 1990s may be seen as the latest sign of the country's economic strength.

Focussing on the last decade, this volume seeks to shed light on the foundations of Finland's impressive economic and social performance. It examines the strategies, policies and institutions that have formed the enabling framework for the rise of the country. Moreover, it identifies the problems and issues that remain on the political agenda.

We are deeply indebted to the authors who contributed to this volume. They readily responded to our request to make a joint effort in order arrive at a broader understanding of Finland's welfare. Our first thanks go to the universities of our own, colleagues and students who was patient with us. We are also grateful to the sponsors of our studies. Hereby should be mentioned the co-financing of Finnish Academy of Sciences, the Finnish Work Environment Fund, Ministry of Internal Affairs, Ministry of Social and Health Affairs, Ministry of Labour and the Tampere city.

The main portion of articles in this book is the results of a larger research project entitled "Changing Dynamics of Urban Economies, Differentiation of Local Labour Markets and New Forms of Local Governance" directed by Professor Perttu Vartiainen (<http://joyx.joensuu.fi/~urban>). Experts from other universities and projects – such as the researchers of the Labour Pool project of the University of Joensuu (<http://joyx.joensuu.fi/~tpooli>) and the researchers of the Working Time project of the University of Jyväskylä – was also invited to contribute.

For the proofreading of the text we thank John Hawkins, for editing the tables and figures Arja Jolkkonen and for technical assistance in typing and paging Tuula Nylander.

At this point of time we kindly wish that the book really find its critical audience among those who are interested in questions of societal change and regional and labour market issues especially. One forum for such a critical debate will be the home-pages of the book (<http://granum.uta.fi/english>)

Pertti Koistinen

Werner Sengenberger

# Introduction

*Pertti Koistinen*

Social innovations and the functioning of labour markets have traditionally been the means enabling small economies, areas and even individuals to boost their competitiveness in the face of extensively changing conditions of competition that are of external origin. These theoretical points of view are shared by many social scientists but, to which means of competing and adjusting can the small nations resort and rely on when societies are integrating into a world society? Historically such a societal choice was carried by holistic national projects. National project and institutions did bring about continuity and strength into the policies and brought the state and inhabitants together. But nowadays when the economies are globalizing and policies are being integrated by the European Union, the question arises where are the possibilities and limits of national choice. What can the individual states do when aiming for social innovations and labour flexibility? Which are the most frequently used forms of flexibility and adjustability of the labour force, who resorts to them and what benefits do they derive from them? These questions are topical universally, but especially in Finland, whose economy has, since its almost total collapse in the beginning of the 1990s, grown beyond anyone's wildest expectations, thanks to the so-called new economy. These questions have been tackled in economic and social literature and political discourse, but less attention has been paid to the questions of how the ongoing regional differentiation itself has affected the governance of regional development, functioning of labour markets, and position of individuals in this process of societal change.

In the spring of 2000, Werner Sengenberger, in a stimulating article, wrote: Not merely the quick recovery in the 1990s, but the remarkable rise to affluence in the latter half of the 20<sup>th</sup> century, has aroused intellectual curiosity ... The high level of consensus among the key groups in society, the comparatively high degree of equality and social inclusion, the quality and effective use of the country's human resources are seen as key development factors...

Having read Sengenberger's article and discussed it with the author and Frank Wilkinson, Professor of Economy at Cambridge, we assembled a Finnish research team to pursue Sengenberger's ideas in order to make a critical assessment of them on the basis of empirical research. This sparked off the idea to



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write this book “Labour Flexibility – a Factor of Economic and Social Performance of Finland in the 1990s”.

Later on, as the global economy, not to mention the Finnish economy, has clearly taken a nosedive, the question arose whether the Finnish model is sustainable and adaptable in changing circumstances. The issues of sustainability and adaptability apply especially to the rate of employment and labour market dynamics. The present work focuses primarily on the process of regional differentiation and labour market adaptability, and on the question of societal choice in order to gain economic and social performance. The regional, occupational and social mobility of the labour force, the flexibility of contracts and working hours and the competition and social selection taking place in the labour markets are the core issues in most of the articles included. These forms of labour force adaptability are studied as a social process, and as factors influencing an individual’s chances of finding employment and determining his/her status in the labour market.

### **The Performance of a Society as a Theoretical and Political Issue**

From a theoretical point of view, the idea of the economic and social performance of a society has different histories. One of the most important contributions comes from Karl Polanyi (1957), who argued in his book “The Great Transformation” that economic, social, technical and cultural systems are not separate and self-sufficient spheres but interdependent and complete spheres. This has prompted a closer look at the role of social systems as factors of economic performance and innovation. Polanyi’s realism and Marxian politico-economic critiques created the basis for rational choice and planning in a market economy. According to modern social theory, society has been seen as an open, man-made system. Many times such societal choices have been named as national models or national projects pointing out the specific continuities and change of national institutions including the national consciousness and social memory (Virkkala, *in this Vol.*).

The ideas of the welfare state even further encouraged the idea of “man-made society”. At this stage of development we find the birth of the economics of welfare, theories of welfare and public goods, and social policy as a science of public intervention. The general ideas of man-made society are embedded perhaps even more concretely in studies on industrial relations, labour markets and training. An example of this is the theoretical concept of “societal choice” developed by Maurice, Sellier and Silvestre (1986). Using this concept they pointed out the importance of the institutional settings of a society, such as training systems and labour markets and their historical formations, structures

and functioning. But, societal choice could be seen even more broadly to include political decision making, institutional settings, and the actions of individuals in the context of these structural settings.

Historically, the societal choice and national model approaches were actualised especially in small countries interested in finding a balance between the internal and external factors and created a basis for societal choice in welfare policies. The idea of the economic and social performance of a society has been re-actualised during these last years in social sciences and political discourse (Auer, 2000; Larsson, 1999; Schmid, 1999). In the context of recession there was open scepticism suggesting that the Nordic welfare states would not be able to maintain their welfare models. The reason for the economic crisis and slow growth was not seen as the outcome of failures in macro-economic coordination, but more widely as a deeper systemic failure and due to the structures of the welfare state itself (Kalela, Kiander, Kivikuru, Loikkanen and Simpura, 2001, 7).

As the performance of the welfare state received theoretical and political criticism, the concept of societal choice received new emphasis. Comparative studies on welfare states in the process of globalisation verify that societal variations still matter. These variations are evident in all dimensions of “welfare regimes”: labour market regulations, welfare states and families (Esping-Andersen, 1999). In the field of labour market regulations European societies already have a long history of action for more coordination and harmonisation of regulative systems, but at the same time, the different models of regulation seem to improve national competitiveness and stimulate competition among systems of regulation. Therefore, societies are not eager to give up their national models of regulations. Another good example of the variations of the welfare state is the policies on gender relations. Despite longstanding political interest to promote both gender equality in society and interest to learn from good practices, we can find very different modes and strategies for developing gender relations in Europe and even inside the framework of the European Union (Lemière and Silvera, 2000; Behning and Pascua, 2001). The state as an arena of political strategies and choice is one of the most important forces regulating gender relations and determining the extent to which women are able to influence/challenge the norms related to their roles in society that have been embedded in institutional settings across time and space. Therefore, there are valid reasons to study the state as a site of gendered strategies as well as a product of past gender relations (Mósesdóttir, 2001, 196–198).

Globalisation of the economic, social and cultural systems is another reason to study societal models now. The nation state and local actors now play more important roles in the argumentation of social sciences, challenging research topics and concepts of social sciences. The emergence of a worldwide

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society and a global interactive network means that society as a research topic in the context of traditional national borders does not exist. Social scientists should thus be able to describe and analyse phenomena globally in all their complexity, in real time, and at several levels. That task, however, is often too demanding, as the basic tenets of social sciences have generally been developed to describe and analyse social phenomena emerging within the confines of society and the state, the individual and the state, or the state and the nation. This has prompted social scientists, including Treanor (1997) and Törn (1999), to argue that social sciences are based on “methodological nationalism”. Furthermore, the conceptual, theoretical and methodological commitment to projects covering the nation, the nation state, or the welfare state is problematic, since concepts relating to the nation state or the state can seldom offer the correct focus or solution to problems arising from globalisation, or global and local interaction. In the present work, these issues will be tackled from the perspectives of glocalisation and regional differentiation.

According to Antikainen and Vartiainen (*in this Vol.*), regional development after the mid- 1970s until – and including – the recession years of the early 1990s was relatively balanced. However, the urbanisation process was still rapid within peripheral areas in the 1970s and 1980s. In the latter half of the 1990s – at the same pace with the recovery of the economy – the domestic migration flows climbed up to the level of the early 1970s, when previous records were made in the annual amount of migrations. The regional concentration occurring in the latter half of the 1990s has been one of the leading topics both in recent regional studies and public discussion in Finland. The fear of repetition of a Great Move, which Finland experienced in the 1960s, became more pronounced. If it would take place, it would be considered the destiny to the Finnish countryside and to the less-favoured regions if society is not ready for equivalent reforms in other fields which could contribute to the welfare and economic performance. (*op. cit.*)

This fear is well-founded because the idea of regional equality is imbedded in the Finnish idea of the welfare state. For this reason, requirements for a more effective regional policy – and at the same time, also the assurances by the Finnish government of their political will and capability to implement a “new” and efficient regional policy – have been a visible part of public Finnish debate in recent years. (*op. cit.*)

A third reason for the increased need to evaluate the performance of society derives from European integration and the integration strategy chosen by the European Union. The integration strategy of the European Union underlines the social and cultural heterogeneity of member states and even the importance of each society to meet the economic, social and political integration criteria on the basis of their own institutional settings. The European Union

gives priority to actions that are grounded on the subsidiarity principle. (Dudley, 1989; EC: Agenda, 2000)

Despite the overall political strategy of the European Union there are further reasons for new debate on societal choice. One reason is the integration theory itself. Although the economic integration theory favours the tendency to converge, the realities support the longstanding enclaves among societies (Molle, 1990). The ups and downs of economic development, including the recession in the 1990s, seem rather to increase instead of level out the differences. The differences do not only refer to labour market issues, such as the level and quality of employment or the standard of labour market services, but also refer to other welfare sectors, including health care, pension systems, and social services and the way in which they affect the behaviour labour in and outside the labour markets. This reality calls for a re-assessment of policies and comparative studies on societal models. But, as we argue for studies on societal models, we should point out that instead of accepting only one optimal solution in economic and social policies, we also need to look for different models, good practices and bench-marking.

#### *The Employment System Approach*

The Finnish experience verifies very well that changes in employment and labour mobility in its different forms and dimensions, such as occupational, regional and social mobility, must be studied in the context of the employment system. The approach used for the employment system suggests that changes in employment will not be limited only to work in the market sphere, but will effect also societal work outside the market mechanism.

In our writings “employment system” is a comprehensive term covering all paid work, entrepreneurial activity, and work performed outside the labour markets and market relations. The concept of the employment system can also be used when analysing socially and culturally specific systems of working hours, forms of social control of labour (industrial relations), and the interrelationship of labour markets and other social institutions, such as systems of education and training, social security and gender. Employment systems are located within national settings in as much as national legislation and agreements, and social and cultural systems are what shape labour market participation and regulate work, the functioning of the labour markets, working hours and the mobility of labour, etc. Systems, such as those for education and training, family policy, and welfare services have created institutional frameworks for the general welfare and behaviour of the working-age population in the labour market. By viewing the employment system from this wide societal

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perspective, we will discover the way in which the following are interlinked: the level of employment, relations between market and non-market related work, hierarchical division of work between men and women, institutional arrangements and power relations in the production sphere, social reproduction sphere and the state. The variations in the institutional settings of the employment systems across time and space are also very much related to the societal modes of regulations of work and industrial relations, welfare regimes, gender regimes, structure of production, and development of work organisations and technology. (O'Reilly, 1996; Pfau-Effinger, 1999; Esping-Andersen, 1999; Koistinen, 2001; Mósesdóttir, 2001, 195.)

When the employment system will be approached from such a larger perspective and understood as a national setting in which the functioning and flexibility of the employment system depends upon the functioning of other institutions of society as well, the employment system can be seen as a mediating institution between the economic and social institutions. Therefore, the functioning and adaptability of the employment system will affect the economic and social performance of society at large. In this book we are interested in analysing this aspect of economic and social institutions.

### *Sources of Employment System Flexibility*

According to economic literature, labour and labour markets can adapt to economic recession by decreasing wages or decreasing the level of employment. Studying the developments in Finland during years of recession (1991–94) and the restructuring and recovery that took place afterwards, Pehkonen and Kangasharju (2001, 15) argue that “although real wages also declined during the recession, relative change was much smaller than that in employment. ... the labour markets reacted to the shock mainly via the adjustments of quantities (employment), not via the adjustment of prices (wages). (Pehkonen and Kangasharju, 2001, 15.)

The result is very interesting and raises several questions for more detailed studies. In this book we assume that by allowing for rapid structural changes, the adaptability of the labour markets has promoted economic growth, but that the adaptability of the labour markets (including regional, occupational and social mobility, contractual flexibility, etc.) explains the recovery of employment as well. According to our studies, the reactions of employers and employees, and deregulations made in the institutions of the welfare state led to far reaching changes in the structure of employment, the regional structure of the labour force, labour relations and even in the behaviour of labour and the functioning of labour markets. Suikkanen, Linnakangas, Martti and Karjalainen

(*in this Vol.*) analysed the changes in the labour markets in its entirety and argue that the changes were so great that there are reasons to assume that we are living in a transitional period which is generating significant changes both in the functioning and functions of organisations and at the levels of individuals' behaviour in the labour markets. To describe this broadly they use the Beckian conceptualisation and say that the recession boosted the shift from First Modernity towards Second Modernity in regard to the model of employment and regulations of paid work.

### *Regional Differentiation of Society*

In the 1990s, the development logic of urban regions changed dramatically. The urban network in Finland is characterised by having one predominant centre (the Helsinki Region), a few strong national centres located in Southern Finland and the Oulu region in Northern Finland and a few dozen medium-sized and small regional centres. The recession seemed to erode the traditional paths of regional development where the economic prosperity of urban regions derived from basic industries and public services. (Antikainen and Vartiainen, 2001.)

Another characteristic of this regional differentiation is the decline of urban regions specialising in public sector services, while those specialising in design or production of information technology are prospering. One open question is the continuing validity and efficiency of the public policies in steering regional development and in aiming at more equal regional development. The increase of inequalities in welfare raise doubt as to whether society is any longer able to level out the regional differences in employment and unemployment or whether society is able to retain policies tackling the gendered caps in employment.

Despite the positive economic effects of the high adaptability of regional and social institutions, certain social problems lurk behind the high flexibility. One of these problems is the rapidly growing regional differentiation, manifested in the differentiation of the population and labour structures, which ultimately lead to social inequality. One interesting question is to what extent the individuals and families can adapt without negative feedback such as that shown through an increase of social divisions, a decrease of productivity, or a loss of labour market functioning.

*Regional Mobility of the Labour Force and Selectivity of Migration*

In the 1990s, the migration and regional mobility of labour increased along with economic growth. An interesting feature in the interregional migration is that not only has the migration from the rural areas to towns increased, but also the migration between the functionally significant urban regions in the 1990s. For example, in 1996, the main direction of migration (80%) was between the significant urban regions.

From the perspective of labour markets, it is significant that both in-migration and out-migration are very selective. Young people aged 20–29 years constituted the largest group migrating into urban areas. Within this age group, the largest sub-group consisted of in-comers whose family situation had not changed during the preceding year. Their migration was explained by their socio-economic status: in most cases they were junior or senior white-collar workers or students. The second most significant factor appeared to be a change in the family situation, as compared to the year preceding the migration.

Studying is a major explaining factor of migration in the younger cohorts. By educational level, the largest group consisted of people with Bachelor's degrees or with post-graduate research training. In the group of those over 40 years of age, migration is largely explained by career-related and occupational factors. The most mobile occupational group consisted of people working in the fields of technology, natural sciences, social sciences, or humanities. (Laakso, 1998; Jolkkonen and Kilpeläinen, *in this Vol.*)

This gives reason to argue that regional mobility of labour boosts economic growth and the adaptation of labour markets according to the demand of labour in rapidly increasing fields of business such as the electronics industry and information technology.

*Occupational Mobility of Labour*

In connection to structural change, education policies, training policies and the related occupational mobility again played key roles. According to the studies on urban regions, about 23% of the labour force changed occupation during 1990–1995. The change of occupation was nearly twice more frequent during 1993–1995 than during 1990–1993. The change of occupation was most frequent among people engaged in accounting or office work: they shifted over to secretarial work, other commercial work, or accounting. Another large group consisted of people who changed to wholesale trade, retail trade, or administrative tasks in businesses.

Men changed occupation more often than women, accounting for 55% of all those who changed occupations. A total of 27% of those who changed occupations had no vocational training. Of people with vocational qualifications, 27% held qualifications in technology or natural sciences and 23% in business or social sciences. In 1992, a total of 26% of those who changed occupations were unemployed, and the corresponding figure was 33% during 1993–94. (Jolkkonen and Kilpeläinen *in this Vol.*)

The results verify that the labour markets as well play an important role when society aims at economic and social performance. The labour markets are not a passive mechanism in adaptation, rather the opposite, shaping and re-shaping society. From the perspective of the functioning of the labour market, it is viable to ask to what extent occupational and regional mobility can substitute one another, and in which occupations and at what levels of education such substitution is possible. According to the results of the present research, occupational mobility is more common among people who have no formal qualifications or who have acquired their professional skills on the job. But, are the unemployed as flexible as the other labour groups and do they change occupations for the purpose of obtaining a job? From the labour markets perspective, it is interesting to ascertain if both migration and changes of occupation are common among employees with lower vocational qualifications in technology or natural sciences, as well as among employees with higher vocational education in the business field.

### *Contractual Flexibility*

Keeping with Nordic tradition, Finnish employment contracts are regulated mainly through collective bargaining agreements between labour market organisations. Collective bargaining agreements have become a normative part of employment based on contract, and whenever norms are created by legislative means, such acts are broad-based and binding. The policy of contracts between labour market organisations and the state, under heavy pressure during the recession of the early 1990s, was used in an attempt to create stability where unstable conditions reigned in the market. In 1995, Mr. Lipponen's first cabinet and the labour market organisations drew up an agreement designed to stabilise the economy. The agreement called for major innovations and reforms in industrial relations, employment and social security, and labour legislation. As shown later in this work, the reforms of labour and social security legislation in the 1990s, as well as those covering social policy in general, were substantial. A new Employment contracts act came into force on 1 September 2001. The new law became more flexible, along with the new forms of management and su-



pervision. Management and supervision do not need to be practised in a particular way to be acknowledged as having the legal consequences of labour law. The contracts have taken on a central status in the new labour law. In freeing concrete regulation, the last forms of protection, even fundamental rights have, on the other hand, increased their significance. Nevertheless, these reforms mean that the traditional central position of management and supervision in labour law become problematic according to the experts of labour law (see Koskinen and Mikkola, 2001, 26.)

These reforms have given the practice of concluding local collective bargaining agreements a further boost, although such agreements have tended to follow national, union-specific and general legislative terms and conditions in Finland. Locally applicable agreements have thus supplemented national, contractual flexibility. As a result, the dominating line of approach in Finland could be called centrally co-ordinated, localised, contractual decentralisation. (Nieminen, 2001; Niemelä, 1999.)

Several studies verify that the recession was effectively used as an excuse for redirecting the welfare state development, but the direction is unclear – was it towards a European model or simply a distancing from the Nordic model. Many social scientists argue that despite the impact of economic shock, the Finnish model did continue and was only modified and modernised. Raija Julkunen (2001) represents another line of argumentation – that the survival of the welfare state may be a misleading interpretation hiding behind the significant turn towards “Europeanisation”, in a sense loosening its universalism and being targeted more on the most needed (see Kalela, Kiander, Kivikuru, Loikkanen and Simpura, 2001, 13). In this book she and Nätti put this argument to the test by examples of working time policies.

Despite the indisputable tendency of “Europeanisation”, the authors point out the national specifics of change. The specifics can be read in the history of industrial relations, in the political process of European integration policies as well as in the political management of recession where social consensus rewarded the regeneration of Finnish industrial systems.

### *Competition and Selection in the Labour Markets*

Taking into account all the remarkable changes that the recession and structural change of the economy brought on in the structure and functioning of labour markets, we can conclude that these changes created new preconditions for competition and selection in the labour markets. Surveys concerned with the job search theory have been central to the discussion on the integration of the unemployed into the working life. On the other hand, less attention has been

paid to the way in which the integration of the unemployed into the working life has been affected by the competition occurring in the labour markets and by the process of social selection where individuals and groups have different positions and different resources. This survey aims at estimating the integration of the unemployed into the labour markets in relation to the position of other groups in the competition, and the structure of the labour markets and their ways of functioning. This is an important emphasis, since many earlier surveys focussed on one group only, often on the group of the unemployed and on its integration into the working life. But the information obtained about the employment of the unemployed has not been compared with the employment of other groups, such as those who have recently graduated or those seeking their way into the labour markets.

The note above is of theoretical significance, because employment of the unemployed is often made difficult by the fact that at the same time there are also other job seekers in the labour markets and those who strive from other positions on the labour markets. Different groups also have different preferences in regard to the kind of job and terms of employment they accept. The differences occur both between the groups and between the individuals. It may be assumed that students seeking temporary employment while studying have lower preferences as regards pay and working hours than, for example, job applicants who have graduated. The problem is not only that other groups compete for jobs with the unemployed, but also that all these groups have different interests and resources for seeking employment.

All these examples prompt us to study the behaviour and social selection more broadly and comprehensively. Through such analysis we would learn how the labour markets function and how various institutions, such as education, pension and social security systems or labour policy measures, affect the functioning of the labour markets and the positions of different groups in the labour markets.

### *Structure of this Book*

The work is structurally divided into three tiers. The top tier covers macroeconomics, analysing the Finnish model and its underlying economic, regional, and socio-political choices that manifest themselves in national and regional politics. Institutional solutions concerning the regulation of employment based on contract, working hours and social security are meso-level issues. Micro-level studies include empirical analyses of the occupational, regional, and social mobility of the individual, and his/her behaviour in the labour markets.

In the first three chapters of this book Pertti Koistinen, Werner Sengenberger and Seija Virkkala initiate the discussion by taking a look at the foundations of societal choice. According to the authors, a country can choose diverse economic, regional, and socio-political solutions on which to base its competitiveness. These national choices are essential to understanding how Finland recovered from the recession, although her economy has simultaneously opened up and become more integrated into the global economy and the European Monetary Union especially.

In the fourth chapter Janne Antikainen and Perttu Vartiainen open the discussion on regional differentiation. The authors suggest that regional differentiation and the growing importance of urban centres were the motors of economic development during and after the recession of the 1990s. This should not be seen only as a passive adaptation process, but as an active phenomenon promoting change. This change has been characterised by strategic choices made by urban centres and municipalities, and their alliances with business and industry, having in turn determined the status the new economy, for instance, could acquire in a specific urban region. And when taking into account the structural changes of the 1990s with regard to the qualifications and occupational mobility of workers, and the structure of employment, one might ask – as Asko Suikkanen, Ritva Linnakangas, Sirpa Martti and Anne Karjalainen have done in Chapter 5 – whether this whole phenomenon could be described from a broader structural point of view. They attempt to conceptualise the change of the employment system by using the concepts of “First and Second Modernity” introduced by Ulrich Beck.

In Chapter 6 Arja Jolkkonen and Riitta Kilpeläinen continue the analysis of regional and social differentiation, but they focus on choices made by individuals, and the way in which regional, occupational, and social mobility might possibly have improved the employment prospects of individuals. The empirical study, based on longitudinal data, can be used to test many arguments about promoting training, and regional or occupational mobility at the macro-level.

Chapters 7 and 8 shift to the institutional level, taking a look at contractual regulation, for example the roles played by the regulation of working hours, and by unemployment and social security systems under the labour policy strategies of the 1990s. Raija Julkunen and Jouko Nätti suggest that the recession of the early 1990s and the ensuing unemployment created politically favourable conditions for working hour reforms; an issue that remained a mere dream in the 1980s due to a lack of consensus and political power. The same theme continues in Tuukka Arosara’s article dealing with the effects of unemployment security and social security reforms on household incomes, and the resulting willingness to accept low-salaried employment. He suggests that the employment of the unemployed and low-wage employees apparently involves

incentive traps. These incentive-related problems affect the people who are employed by means of supportive work, not the employers hiring an unemployed person or those financing the supportive work.

Chapters 9 through 11 turn the analyses more to the behavioural level and question how structural changes in the economy and competition in the labour markets have affected the employment prospects of the unemployed. In his article, Pertti Koistinen looks at the competition and selection in the labour markets and asks if the position of long-term or repeatedly unemployed persons is weak simply because other groups have better positions in the competition in the labour markets. Arja Jolkkonen and Pertti Koistinen develop this question further by asking whether short-term employment, which became increasingly common in the 1990s, was a stepping-stone or an obstacle to permanent employment. Arja Kurvinen utilised a survey study to assess the capabilities and resources of the long-term unemployed who were admitted to employment projects, and how they viewed their chances of finding regular employment.

In the conclusion Pertti Koistinen and Werner Sengenberger argue that an employment system increasingly characterised by the regional, occupational, social or contractual mobility of the labour force, and a combination of these features, has gained ground due to the recession of the 1990s and the structural changes that followed. These forms of labour force mobility have jointly made the labour market more adaptable, while differentiating labour force structures and the labour market regionally and socially. What made all this possible? What is this kind of flexibility based on, and does it differ from that experienced in other countries? Who has benefited from it, and would this model perhaps be applicable in the future?

## 2 Employment, Development and Economic Performance of Finland<sup>1</sup>

*Werner Sengenberger*

### **Why Finland is of Interest to Other Countries**

While many countries in Europe have been struck by persistently high rates of unemployment through most of the 1990s, a number of smaller countries in the European Union managed to reduce joblessness to a level of around 5 per cent and less, and they appear to continue on a path to approximate full employment. To investigate the reasons and capability for this labour market performance far superior to the European average, the ILO conducted comparative employment policy reviews in Denmark, Ireland and the Netherlands, which succeeded by the end of the decade to cut their unemployment rate into roughly speaking one-half of what it had been in the 1980s and early 1990s. A review was also undertaken for Austria, which showed unemployment less than one-half of the EU average during the last three decades. It was found that in these countries the labour market progress resulted from a variable mix of expansionary macro-economic policy, innovative labour market policies, and social policy reform, all of which was greatly supported and facilitated by a well-established system of social dialogue between the government and social partners at the national level, leading to a kind of explicit or implicit employment pact (see Auer, 1999).

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<sup>1</sup> The occasion for preparing this paper was my participation in a Conference on Jobs, organized by the Finnish Ministry of Labour, with the support of the European Commission and OECD, held in Helsinki on 27 and 28 January 2000. This conference was aimed at assessing employment strategies of the OECD and the European Union, reviewing the employment performance in Finland, the United States and Japan, and discussing selected issues of contemporary active labour market policy.

I used the visit to Finland to meet with officials in the Ministry of Labour, representatives of the trade unions and employers' organizations, and academics in order to explore in some depth the recent labour market developments, and in particular the nature and reasons for the rapid recovery of the Finnish economy from a deep recession in the early 1990s. The recovery cannot be understood without reference to the historic and institutional development of Finland, a subject which I had pursued during successive study tours to Finland starting in the 1970s.

Finland is also worth being studied. To be true, the aggregate unemployment rate is still high to date. It has just come down from over 18 per cent in the mid-1990s to about 9 per cent at present, which corresponds to the EU average. Since the mid-1990s, the national economy has been growing at an average rate of 4.5 per cent, employment growth has amounted to 2.3 per cent. The economic and labour market indicators show good prospects of further improvement. What is remarkable is the speed at which the country has been recovering from a deep recession of the economy in the early 1990s following a sudden collapse of nearly all trade with the former Soviet Union and other economic shocks. In fact, it was the deepest economic downturn of any Western market economy in the first half of the 1990s. Output plummeted suddenly, unemployment rose five-fold to 18.2 per cent in 1994 (see ILO, *Key Labour Market Indicators*, 1999).

Beginning in the mid-1990s, the country was not only able to revert to the high growth path preceding the economic downturn, but managed to further diversify and strengthen the competitiveness of the economy, without at any time sacrificing the basic social security of its citizens. Rather, the welfare state and other national institutions, including sound industrial relations based on a broad social consensus, and a high level of educational attainment and vocational preparedness of the labour force proved to be essential prerequisites for the recovery.

Yet, the lessons to be learned from Finland go clearly beyond the recent economic recovery. Largely thanks to its political stability and its viable institutional environment, the small country accomplished in an astonishingly short period of time a successful transition from a largely agrarian and forestry-based economy to a modern information and knowledge-based economy and society. Still after the Second World War, when as much as 50 per cent of the labour force worked in agriculture, Finland was a relatively poor country. By the end of the 1970s, the share of labour in agriculture had come down to 14 per cent. Between 1925 and 1934, according to estimates by Colin Clark, Great Britain's average real per capita income was about 200 per cent higher than that of Finland (1069 international units compared to 380). By 1979, Finland's mean real per capita income of \$6160 had already exceeded that of Britain (\$4420) by 30 per cent (World Bank, 1979). Furthermore, the income gap between Finland and the United States had also impressively narrowed by that time, from 264 per cent to 38 per cent. The rise to prosperity continued in the 1980s, and having recovered from the severe economic shock of the early 1990s the country appears now to be back on the earlier growth trajectory. The long-term growth performance of the Finnish economy is outstanding. During the last one hundred years, only two countries (Japan and Taiwan) enjoyed higher economic growth rates than Finland.

Not merely the quick recovery in the 1990s, but the remarkable rise to affluence in the latter half of the 20th century, has aroused intellectual curiosity. No matter whether you talk to officials in the government, or to representatives of employers' and workers' organizations, or independent economists or sociologists, all attribute Finland's remarkable development to its enabling social environment, among which the labour institutions play a pivotal role. The high degree of collective organisation of workers and employers, sound industrial relations, the high level of consensus among the key groups in society, the comparatively high degree of equality and social inclusion, and finally the quality and effective use of the country's human resources are seen as key development factors. Accession to the European Union in 1995 is regarded as a further contributor to a favourable environment. The small size of the country – Finland has a population of 5.1 million and a low population density of merely 17 persons per square kilometre – and its remote geographic location are no longer viewed as a major economic disadvantage. On the contrary, Finland has found means to offset the drawbacks of smallness, and today it is also not seriously suffering from its location at the Northern periphery of the European Union.

While in previous centuries, and way into the 20th century, a nation's population size, its natural resources, and size-dependent economies of scale were considered primary determinants of prosperity, today a country's human resource base overrides all other factors. Also, other physical features, such as geographic location, population density and climatic conditions do no longer matter as much. Modern information and communication technologies diminish, if not eliminate the role of distance, density and space.

### **The Remarkable Economic Recovery in the 1990s**

In the early 1990s, Finland experienced the worst economic recession in its peacetime history since the famine years in the 1860s. No other country of the European Union was as hard hit as Finland. Real GDP declined by 13 per cent from 1990 to 1993, employment fell by 18 per cent between 1991 and 1994, and unemployment rose more than five-fold, from 3.4 per cent in 1990 to 18.2 per cent in 1994. For young workers in the 15–24 years age group, joblessness jumped up to 30.9 per cent that year (ILO, KILM, 1999). While the public authorities in Helsinki and the European Commission speak of a “deep recession”, some Finnish economists, as for example Jaakko Kiander, call it a “depression”. In fact, Finland's downturn in the early 1990s was deeper than that of the 1930s when the drop in GDP was just over 4 per cent, and thus rather mild compared to that of the United States and Germany (For a recent thorough

analysis of the Finnish economic crisis in the 1990s, see Kalela et. al (eds) Helsinki, 2001).

The recession was caused by a combination of simultaneous events, among them the nearly total atrophy of exports to the collapsing Soviet Union hitting Finland harder than other Western economies; the severe recession in Western economies; and the rapid deregulation of financial markets that brought about a crisis in Finland's banking industry. Finnish trade with the former USSR was based on bilateral agreements on the exchange of goods. The Soviet Union accounted for 15–20 per cent of Finnish exports in the second half of the 1980s.

The severity of the downturn in the 1990s was related to the prior accumulation of debt, and obviously Finland was one of the countries where debt had risen fastest prior to the recession. The depressions in the 1930s and the 1990s in Finland were preceded by strong booms related to credit expansion and financial deregulation. The easy supply of credit overstimulated first the housing and securities markets and then overheated the rest of the economy. People and companies got over-indebted as the banks competed for market shares. This created an increasing demand for foreign lending, investments and consumption. The government at that time did not follow Keynesian policy prescriptions, but actually lowered taxation at a time when markets were already heated up. This resulted in overinflated real estate and stock markets.

The expansion had led not only to growth of domestic demand and of imports but also to increases in wages and prices, particularly in asset prices. Capital movements were free in both periods, and part of the expansion was financed by private borrowing from abroad which seemed attractive under fixed exchange rates. These developments, together with an unexpected fall in exports and deteriorating terms of trade led to balance of payments problems and rates of interest far above the European average. This was followed by a fall in domestic demand, decline in asset prices and a financing crisis for the Finnish businesses and banks (Kiander and Vartia, 1996). The government financial situation was near catastrophic. In 1991, public debt stood at 25 per cent of GDP, and it rose to nearly 70 per cent at the height of the recession (Sorsa, 2000).

The precipitous decline of output in the early 1990s was followed by a steep rise of economic growth in the latter half of the 1990s when output increased by an average of some 4.5 per cent a year, the highest growth rate in Finland's economic history. At the same time, unemployment fell rapidly from the 18 per cent peak in 1994 to 9.2 per cent in 2000. The projected rate for 2001 is 8.5 % (OECD Employment Outlook, 2000). The number of jobs has risen by over 10 per cent in this period.



How could the economy recover so speedily from these shocks? What was required was not only financial and economic stabilization, but also a profound restructuring that would overcome the dependency of the Finnish economy from trade with the Soviet economy, and make it fit for competing in Western markets.

First, to a large extent the recovery was driven by an export-led growth strategy. This was facilitated by improved competitiveness resulting from the devaluation of the Finnish mark. Between 1991 and 1993 the Finnish mark lost 40 per cent of its value against the German mark and the US dollar. In 1992 – at the height of the recession – the Finnish markka was tied to the European Currency Unit which made it impossible to restore external balance through exchange rate adjustments. Later that year, the markka was allowed to float and after a period of hesitation, monetary policy was relaxed and the interest rate started to fall in early 1993, easing the debt servicing of firms and households and enlarging the room for new investment. Furthermore, in 1992-93, contractual wages were frozen. As productivity rose sharply, this resulted in improved price competitiveness of Finnish manufacturing products. The trade balance which had been negative in 1989 and 1990, became increasingly positive in the course of the 1990s, and reached a surplus of close to 10 billion Euro in 1998. The current account turned positive in 1994 and rose sharply afterwards, approximating 6.7 billion Euro in 1998. The inflation rate averaged 1.8 per cent between 1990 and 1997 – one of the lowest worldwide. In 1997, price inflation in Finland and Austria stood at 1.2 per cent – the lowest level in the European Union (Ministry of Finance, 1998, Table, p. 13).

Full entry into the European Union became effective in 1995. The depreciation of the national currency by a large order of magnitude is of course much easier for small countries than it would be for Germany or France where it would have serious repercussions for the European economy as a whole. The lowering of the interest rate spurred the resumption of domestic demand. So did changes in fiscal policies, most of all the reliefs in income tax. Fiscal policies in Finland had been rather pro-cyclical, accentuating upturns and downturns of the economy.

Incomes policy must be seen as another essential ingredient to the recovery. In 1995, OECD expressed the view that the expansionary fiscal policy initiated by the new Lipponen government would pose the risk that inflation would get out of control. In fact, this did not happen. Price stability became possible, not merely because of an international decline of inflation rates, but thanks to domestic wage moderation based on a nationwide tripartite social compact. The employers and workers could be won over for a commitment to wage restraint. Since 1995, several national pay agreements were concluded with the effect of stabilizing inflation at a very low level in spite of the exceptionally fast GDP

growth. The agreements guaranteed stable cost trends and ensured a steady increase in demand. The improved job situation led to an 18 per cent increase in household purchasing power between 1996 and 1999. In the collective bargaining round in 2000, negotiations took place at the sectoral level. A central incomes policy agreement proved impossible to reach. The trade unions were opposed to central level negotiations. In contrast, the employers who had preferred decentralized negotiations before were now in favour of centralized agreements – presumably in view of the tightening Finnish labour market. They were afraid that decentralized bargains would entail higher pay settlements.

The agreement of workers to a policy of wage restraint in the mid-1990s was facilitated by a lowering of income taxes, while the employers' consent was supported by the lowering of social security contributions leading to an alleviation of indirect labour costs.

Wage stabilization across all sectors – be it by central pay agreements or coordinated sectoral bargains – has been facilitated by the cooperative stance which the trade unions and employers' organizations adopted in the 1990s – after more confrontational industrial relations in earlier periods. The accession to the European Union spurred the cooperative relations. Both the Finnish employers and the Finnish workers show high levels of collective organization. The trade union density rate amounts to 80 per cent of the labour force, a propitious setting for centralized or inter-sectoral coordinated bargaining. Agreement on wage restraint is also facilitated by joint employer-union analysis of economic indicators.

In order to smoothen the (experience-rated) social contributions by employers to the unemployment and occupational pension funds over the business cycle, and to protect wage earners against fluctuations within the EU Economic and Monetary Union, the Finnish social partners struck an agreement on the so-called “EMU buffers” on 17 November 1997. Negotiations over this issue arose from worries among workers about the flexibility of wages in a future situation where foreign exchange policy can no longer be used to balance economic fluctuations. Because of its great significance of wood processing, the business cycle of the Finnish economy is very different from that of much of the EU countries. It was feared that the European Central Bank would not support Finland in recession because other EU countries might not face a recession at the same time. The trade unions demanded a protective mechanism for wages in such circumstances, and the agreement creates such a buffer within the occupational pensions scheme and the unemployment benefit security system. The basic idea of the buffers – endowed with a total of 1.2 billion Euro – is that during good times employers and employees will pay slightly higher social security contributions than necessary, with the result that, during bad times, rises in these contributions can be controlled by using the buffer fund for

paying social security costs. Of course, the funds are a reaction to the experience made in the deep recession in the early 1990s, when employers' unemployment insurance contributions increased ten-fold in a short period of time (For details of this agreement, see *eironline*, November 1997; <http://www.eiro.eurofound.ie/1997/11/features/F19711138F.html>).

While macroeconomic stimulation laid the foundations for growth, actual growth was much facilitated by investments into new industries, particularly those based on know-how intensive information technology. The government supported investment in R&D. By 1999, research expenditure had risen to around 3 per cent of GDP, from a level of 2.5 per cent in 1996. Finland has thus joined the leading economies in terms of investment in R&D.

Strong growth of the Finnish economy is expected in the near future. The rate of growth of real GDP for 2000 was 5.4 per cent, the forecast for 2001 is 4.8 per cent (OECD, 2000). Inflation will remain low at about two per cent per annum. The government is expected to run a big fiscal surplus. Employment is predicted to grow by 2 per cent, resulting in a labour force growth of 1 per cent and a reduction of unemployment by 1 percentage point.

### **The Labour Market Situation**

The thrust of the strategy adopted to overcome unemployment in Finland has been to boost economic growth, make it continuous and environmentally sustainable, and diversify the production structure using business policy instruments. Joblessness was to be cut by 50 per cent within five years. This strategy was devised by the Finnish government in 1995, and it has largely been shared by the social partners. In addition, changes have been taken to improve the functioning of the labour market, intensify active labour market policy and lighten the taxation on labour income. The number of job placements through active labour market measures was to be raised to 5 per cent of the workforce, compared with 2–3 per cent earlier.

**Table 1.** Employment rates in the European Union, 1998

Country	Employment rate, 1998	
	Full-time equivalent	Single
Denmark	70.2	79.2
Austria	65.0	70.1
Portugal	64.9	68.9
Sweden	62.8	70.3
Finland	61.5	65.1
United Kingdom	60.9	71.4
Luxemburg	58.1	60.5
France	57.4	60.8
Ireland	56.5	60.5
Greece	55.5	56.5
Germany	55.2	61.5
Netherlands	54.1	68.3
Belgium	53.7	57.5
Italy	50.2	51.6
Spain	47.9	50.2
EU 15	55.7	61.1
United States		75.1
Japan		73.8

Source: OECD

The Finnish government is firmly committed to the goal of full employment. It is aware that in order to reduce the unemployment rate further, and to raise the employment rate to a target of 70 per cent by 2003. (At the Lisbon Summit, the employment rate goal of the European Union was set at 70 per cent). Finland must come to grips with structural problems in the labour market. Traditionally, structural unemployment refers to those workers who find themselves out of work because of a mismatch of supply and demand in occupational, sectoral and geographic terms. It manifests itself in the floor of unemployment that remains when the business cycle is at its peak. The traditional remedy of labour market mismatch is to increase the mobility of workers through better education and training, labour market skills training and retraining and geographic moves to where the jobs are located, or even through the relocation of production sites to labour surplus areas.

Today, in Finland, as elsewhere in Europe, structural unemployment manifests itself to a large extent in long-term unemployment. Short-term unemployment in the European Union countries is approximately the same as in the United States, amounting to roughly 4.5 per cent on average. There is, however, an average additional 5 percentage points of the European labour force that is out of work for over one year. These workers often have little chances of re-employment even in periods of recovery. This complement of long-term joblessness explains to a large extent, why the employment rate in the EU is only 61 per cent of the 15–64 age group, compared to 74 per cent in the United States.

A widely held view about the origin of long-term unemployment in Europe holds that this component of unemployment, especially in Northern Europe, results from the “structuring of the welfare system”. It is argued that huge sums are spent on long-term benefits which encourage inactivity and exclusion. “Unemployment and poverty traps are common, discouraging work”. (Boeri et al., 2000). In this perspective, individuals who receive offers from employers do not take the job but instead choose to continue living on benefit. People become benefit-dependent. In addition, early retirement policies and easy or uncontrolled access to invalidity pensions reduce the supply of labour. The policy response will have to be to change the incentive system of welfare, in particular to reduce the level, and/or shorten the period of income support for unemployed persons. At the same time, policies of “activation” can help to get people back into active work. The move from passive to active labour market policies has meanwhile become one of the pillars of the European Employment Strategy. Under the so-called “welfare-to-work” approach, every unemployed person is to be offered a job or training within a year of becoming unemployed. In addition to the right to get compensation, there are responsibilities. A person must take advantage of the job offer or cease to draw benefits. “The work should, where possible, be with regular employers, and secured if necessary by a recruitment subsidy. A modernized Public Employment Service is a key instrument in the business of channelling job offers to workers. It should be properly staffed and funded, with private agencies free to compete with it” (Boeri et al., 2000)

It can be questioned, however, whether there is a close link between structural unemployment and the level of income support for the unemployed. According to the European Labour Force Survey, the share of long term unemployment – defined as those who are long-term unemployed and those who are inactive but nevertheless looking for a job – in Finland amounted to 27.5 per cent in 1998. This was the lowest rate in the European Union after Denmark (26.9 per cent), and only little more than one-half of the share of the average EU country (49.4 per cent). The “potential structural unemployment”, measured by the average annual inflow into long term unemployment, was 11.3 per cent

which was near the EU-15 average of 11.4 per cent. The resulting estimate of potential effective supply among the unemployed in Finland was 61.2 per cent. (see Lönnroth, 2000, 8). This is still high compared to the European average of 39.2 per cent, the third best rate after Denmark and Austria. As Finland and Denmark are among the countries with the highest unemployment compensation, the “welfare theory” of long-term unemployment is hardly tenable. Also, Europe has virtually achieved full employment for prime age workers, both men and women, between 25 and 49 years of age. It is the young and the old workers that show low employment rates and high unemployment rates in Europe. Why should only they be driven by high income compensation to be unemployed and not the prime age workers?

The alternative contemporary approach to structural unemployment starts from the notion of “employability”. It assumes that a worker cannot get a job because he/she does not have the required skills, or has difficulties to acquire them, or because the worker has certain personal attributes such as limited physical and mental working capacity due to age, health, burnout, motivation, etc. In Germany, for example, it has been found that most of the long-term unemployed are older workers who are fatigued or have occupational health problems so that their employability is severely reduced.

In Finland today, both views of the origins of long-term structural unemployment and their respective remedies can be found. For example, the Finnish Employer’s Confederation holds the misguided incentive structure responsible for the hard-core component of joblessness. Many unemployed workers would not actively be seeking employment. The pension received from retiring at age 60 would practically be the same as retiring with 65. Also, in the view of the employers, active labour market policy should not create publicly funded temporary “artificial jobs”, but productive “real” jobs in the private sector that stand the test of competitiveness. Employers are critical of job subsidies as a means of enhancing re-employment. They would produce big deadweight effects, distort competition and deteriorate healthy hiring practices. Subsidies to employers should not be given for hiring, but for training. Employers favour better training, targeted to skills shortages, and better employment services, emphasizing active job search and improved placement. The latter element of improved labour market services is shared by the government.

The Finnish government initiated a labour market activation policy, seeking to limit the number of long-term unemployed and the duration of unemployment. In 1997, Finland spent almost 5 per cent of its GDP on labour market measures, the highest percentage after Denmark and the Netherlands, and about twice as much as the average EU and OECD country. 33 per cent of these outlays went into active labour market programmes, slightly less than the EU average (36 per cent) and the OECD mean value (35 per cent). Relative to other

industrialized countries, Finland spends much on labour market training and direct job subsidies for the public sector (Martin, 2000, 22).

The government also revised social security standards. Earnings-related unemployment benefits were cut by 3 per cent from the beginning of 1992. In 1993, the qualifying conditions for benefits were tightened. Workers had to accept greater occupational or sectoral mobility. In 1994, work experience was introduced as a precondition for basic unemployment allowances and a limit to the period of payment was introduced. (For a summary of the debate on labour market policy in Finland, see Koistinen, 1999, and Kautto, 2000). Some of these measures, especially the tightening of employment rules for young workers, triggered opposition from the trade unions. In accordance with EU Employment Guidelines, employment measures have been drawn up for young unemployed workers before they reach six months of unemployment. They have to either be given a job or an offer for a training measure. Special courses for job seekers are offered, naming a personal advisor for each long-term unemployed person, and closer cooperation between labour and education authorities. There is a group of 15,000 young people who are in danger of marginalization and who have been targeted for special labour market measures.

The government agrees that the practice of early retirement – the average retirement age in Finland is between 58 and 59 years – should be reduced and ways and means sought to allow people to actually work until the statutory retirement age. In fact, early retirement is one of the outstanding labour market problems in Finland. The employment rate of men aged 55–64 is slightly over 40 per cent, that of women in this age bracket slightly under 40 per cent. This compares with the rates for Sweden of between 60 per cent and 65 percent (EU Commission, 2000). Policy changes are currently being introduced, designed to maintain working capacity. Adjustments are also being made in the pension and income security systems to encourage ageing workers to keep their jobs. The target is to increase the average age for leaving the labour market by 2–3 years, thus bringing it closer to the legal retirement age and reducing pressures to increase pension contributions. In view of the fast-growing economy, it is apparent that without mobilizing the inactive labour force there will soon be serious labour shortages.

The employability problem has been exacerbated in conjunction with the massive spread of information technology intensive production and jobs. It has posed the risk of excluding older workers whose share in the labour force has increased because of population ageing. Older workers are often seen as incapable of learning the IT skills. “An old dog can’t learn new tricks”. The Finnish government seems to fight this prejudice. It has launched a five-year National Programme on Ageing Workers (1998–2002) aimed at improving the labour market opportunities of older people at work. It intends to improve the employ-

ability of the over 45 years old workers through a combination of changes in work organization, work performance and management. It includes measures such as research on the employability issue, renewal of legislation, reducing discrimination, training and rehabilitation, and developmental and experimental activities (see Ministry of Labour, 1999). It remains to be seen whether the government's aim of raising the average retirement age by two years can be accomplished.

The National Programme in Ageing Workers is part of a larger national programme on workplace development started in 1995. It includes sub-programmes on productivity improvement and work organization aimed at enhancing job quality. The employers' organizations and trade unions take an active role in the management of these programmes.

While most of the jobs in the fast growing IT sector pay good salaries, there has at the same time been a growth in the share of low-paid and non-standard jobs. Today, over half of all new job contracts signed are temporary or otherwise atypical. In addition, there remains substantial gender segregation in the labour market. Women are gravely under-represented in the growing high tech sectors, although recently there has been an increased influx of young women into these sectors.

### **The Emergence of a Modern, Affluent, Information-based Economy**

In this section, we take a look at the long-term development of Finland. As said at the outset, this is as remarkable as the economic performance in latter half of the 1990s.

**Table 2.** Finland's gross domestic product per Capita, 1998 (in US\$)

	Nominal	Adjusted for purchasing power parity
Finland	24,280	21,659
Sweden	25,650	21,213
Japan	29,938	24,109
Germany	26,028	22,835
United States	30,851	30,514

Source: Finland in Figures, Blue Wings, December–January 2000



The question raised here is how Finland – despite rather unfavourable physical conditions – could become one of the rich countries in the world. How could Finland, whose economic development was for a long time based on an export-oriented timber economy, surpass Britain – that had been spearheading industrial development in Europe? How could Finland close the large gap to the other Nordic countries and to other leading Western industrialized nations? How could it move far ahead of other European economies that according to Colin Clark were at a comparable developmental level between 1925 and 1934, as for example Greece, Hungary, Poland, and Italy? Despite the dramatic economic downturn in the early 1990s, towards the end of the 1990s Finland's GDP per capita came close to those of the other most advanced industrialized countries. As table 2 shows, Finland had nearly the same per capita GDP as Sweden and Germany, in nominal terms and also after adjustment for purchasing power parity.

Finland's long-term economic growth has been considerably above the European average. Between 1860 and 2000, the annual mean growth rate was 3 per cent, and GDP per capita has risen at 2 per cent. These figures, however, mask the dramatic differences in growth and productivity development in the period before and after the middle of the 20th century. Whereas Finland's growth rate until the end of World War II was roughly in line with that of other industrialized countries, growth after that period was much higher than in other Western industrialized countries. That means that the superior long-term growth path of Finland is largely accounted for by the extraordinary dynamic development after 1950. Between 1950 and 1974, real GDP growth averaged 5 per cent per annum. Thereafter it slowed down, but still reached 6 per cent in boom periods in the 1980s.

#### *Unfavourable Starting Conditions*

As said, Finland's starting conditions were unfavourable, in political as well as economic terms. For centuries Finland had been under Swedish rule. From 1808 to 1917, it was an autonomous Grand-Duchy within the Russian empire. In 1917, it became a sovereign parliamentary republic. Nation building had not been easy. Immediately after reaching independence, a civil war between the "whites" and the "reds" broke out, followed by severe civil strife between political groupings of the right and the left. The ending of grave political and social conflicts in the 1940s set the stage for political stability and economic dynamism.

Compared to the other Nordic countries, i.e. Denmark, Norway and Sweden, the Finnish economy was backward throughout most of the modern his-

toric period. As late as 1950, as much as 46 per cent of the labour force were still in primary production (agriculture, forestry and fisheries), and some 27 per cent each in the secondary sector (industry, mining, construction) and the tertiary sector (trade, transport, banking and real estate, and various other services). By 1975, however, the share of workers in the primary sector had come down to 15 per cent – obviously an enormous leap forward. Today, 6.4 per cent of the labour force work in the primary sector, 27.7 per cent in industry and 65.9 per cent in services (EU Commission, 2000).

The historic economic backwardness of Finland is revealed when comparing its labour economic structure to the other Scandinavian countries. In Sweden, for example, the primary sector counted already less than 50 per cent before the First World War. In Denmark and Norway, the figures were 36 per cent and 39 per cent respectively.

#### *Economic Diversification and Modernization*

One answer can be found in the successful diversification of the structural profile of the economy. Traditionally, the forest- and lake-covered country, not endowed with coal, iron, ore and other mineral resources, exported timber, pulp and paper. Their share in total exports was about 80 per cent before World War I. It imported machines and tools for its export sector. In the meantime, the economic structure has profoundly changed. Wood, and pulp and paper, while still very important have declined to 5.2, respectively 14.0 per cent of value added. They were surpassed by electrical equipment accounting for 15.5 per cent of the total value added. The country became one of the leading exporters in machines and equipment related to the forest-based industry. Exports of machinery, electrical and electronic products, chemical and transport equipment became significant. During the last 10 to 15 years, the structure of the industrial production has become much more diverse. Finnish industry now has several firm footholds, and the economy no longer relies as heavily on the wood-working and paper industries.

At least three factors were of critical significance in the process of diversification and modernization of Finland's economy. First, the distribution of the natural resources, that is wood and agricultural land. Ownership in land and forests in Finland has been comparatively equally distributed. This is in clear contrast to many developing countries where we find a high concentration of property in the natural resources. Had Finland had the same small number of forest owners – as for instance the oligarchy of land owners in Latin America – there would have been little incentive to invest in an import-substitution industry. The incentive to invest in processing industries and in investments goods

industries would have been limited given the limited scale of the domestic economy. The taste for refined consumer goods by the high-income class could have been easily satisfied through imports. Very likely, Finland would have become a relatively stagnant, peripheral economy. Instead, as Finnish economic historians tell us, the revenues of timber exports were widely shared, leading to rising incomes of the rural population and forming the economic prerequisite for a broad industrialization based on import substitution. But, in addition to this “enabling factor”, for import substitution and diversification there was also the compulsion to produce diverse industrial goods due to reparations which the country had been forced to pay to the Soviet Union in the years after World War II. Seventy per cent of the total value of reparations (of 300 million gold dollars) had to be delivered in commodity form. That included machines, vessels, railroad equipment, electric cables, etc. By 1952, Finland was not only acquitted of its reparation obligations, but it had made major progress on the way to building a vital engineering and investment goods industry. It had managed to become a leading producer in the construction of cranes and elevators, but also in certain electrical goods such as electric engines, powerhouse engines and transformers. By the late 1970s, 37 per cent of all industrial employment was in the metal goods industry.

Finland’s development after the Second World War benefited crucially from the peace treaty with the Soviet Union. It entailed economic cooperation between the two nations and spurred trade. Finland profited from the bilateral agreement on the delivery of raw materials and crude oil that saved the country from the oil shocks in the 1970s. The Soviet economy benefited from Finnish quality investment goods. On the other hand, it has been argued that the favourable trade arrangements with the Soviet Union bred a kind of complacency on the part of Finnish industry and contributed to the lack of competitiveness that became manifest when Finland was exposed to Western markets.

*Towards an ICT-economy and Knowledge Society: Finland’s Lead Position in Europe*

In the course of the 1990s, Finland has become one of Europe’s most important producers of high technology. Whereas in the 1970s the electric and electronics industries represented 2 per cent of Finnish exports, the corresponding figure was 11 per cent in 1990 and 29 per cent in the first half of 1999 (Science and Technology Policy Council, 2000). Finnish exports based on information and communications technology (ICT) have more rapidly increased than any other category of exports, and most of the major companies in this sector, such as Nokia, still choose to have essential sections of their technology units in Finland. Nokia exemplifies the rapid industrial restructuring of the country. In

1992, a conglomerate known for paper products, Wellington boots, car tyres and electrical products, is today a leading producer of mobile phones and other telecommunications products. In terms of market capitalization, it has become one of the largest companies in Europe, worth 190 billion euros. Nokia's turnover growth is staggering, 40 per cent year-on-year.

ICT is already in use in most sectors in the economy and in almost every area of business operations, and have thus become important factors of production even outside of actual information processing. Thanks to its advanced status as a high-tech producer, Finland has achieved enormous productivity gains in its traditional industries, i.e wood, pulp and paper, wood felling and cutting equipment, paper machines, and printing. The entire value adding chain in the wood products industry has been integrated in a computerized network. The "old" forest industries were early adopters and testing grounds for modern information technologies. As of the 1980s, initially primitive mobile phones were used for communication among forest workers in isolated work stations in remote areas. On-line data transfer has been used in forestry logistics chains for about 10 years. Most wood is harvested by machines with computers on board. They are programmed to cut timber to optimum length in accordance with the orders at the processing facilities. Data is transferred back and forth between a harvester and a sawmill in real time. This has made it possible to remain competitive in a world market in spite of high timber prices and wages. Pulp mills can reduce their stocks of raw material to 1–2 days intake. All harvesting is done by small, highly mechanized logging contractors. Without information technology it would be impossible to deliver and process the several thousand tons of wood needed in a mill every day just-on-time. On-line control of pulp and paper making, geographical information systems and global positioning systems are other examples of information for which the forestry sector served as a pioneer.

It is worth noting that technological progress in Finland is not only a function of the hardware. The high levels of skills and the ability to harness the human resources in firms through cooperative forms of work organization have led to major improvements in productivity, which are in turn used for further development (Lammi, 1996; Kärkkäinen, 1996).

**Table 3. The use of the Internet**

Country	Internet penetration 1998–2000 (in %)	Internet access in secondary schools (in %)
Finland	49	100
Sweden	48	91
Denmark	35	
United Kingdom	29	93
Netherlands	27	40
Germany	27	60
Belgium	23	
Austria	19	
Ireland	18	100
France	15	84
Spain	13	
Italy	13	
Portugal	9	100
Greece	6	
Singapore		100

Source: Log Tech Study (1997)

Finland has achieved its lead position in the ICT sector through market deregulation in the communications field at an early stage, and the resulting open competition. It commands a good information technology infrastructure. It leads Europe in the utilization of the Internet and Internet access in schools (see table 3). It has the world's highest mobile phone density (Ministry of Finance, 1998, Figures 6.1 to 6.4 and 8.6). Both the public sector and private enterprises have invested large sums in IT and the use of networks. A general policy was formulated by the Finnish government in 1995 regarding the development of an information society, and this strategy was revised in the late 1990s. By international comparison, telecommunications services in Finland are of high quality and are moderately priced. In 1996, Finland had the second lowest mobile telecom charges, and also the second lowest companies' telecom tariffs among the industrialized countries (OECD Communications Outlook,

1997). According to an “Information Imperative Index” of the US International Data Corporation, Finland is the second most developed information society in the world, after the United States and ahead of Sweden, Denmark and Norway (Ministry of Finance, 1998). Largely due to its advanced position in the ICT-sector, Finland was recently ranked by the Lausanne-based International Institute for Management Development as the third most competitive country worldwide (see *Financial Times*, 19 April 2000). The Global Competitiveness Report 2000 of the World Economic Forum ranks Finland as the most competitive country worldwide in 2000, displacing the United States which had held this position in 1999.

Finland holds a strong position in research and development. In 1997, 2.7 per cent of GDP were spent on R&D, which positioned the country in third place after Sweden and Japan and ahead of the United States.

An interesting question is to what extent Finland owes its advanced position in the high sector to the manufacturing strength which it acquired in the course of the second half of the 20<sup>th</sup> century. There are economists who argue that “hard industries” are essential for successfully entering the information economy, and that “leapfrogging”, i.e. short-circuiting or even by-passing the manufacturing stage of development, is bound to fail (Fingleton, 1999). Apparently, this question is of great importance in relation to developing countries without much of a manufacturing base but trying to catch up with the industrialized countries through information and communications technologies.

Public policy has supported and facilitated the way to Finland’s advanced position in the electronics and other high-tech sectors, and the knowledge-intensive growth of the economy. There has been a national information strategy encompassing public investment into research and development in this area, public-private partnerships and cost-sharing, and efforts to augment education and skills training. Access to education and vocational training is open to nearly everyone, independently of the income situation, allowing to make good use of the country’s talents. On its way to a high-tech economy, Finland had outpaced by 1991 the average European Union country in the share of GDP that goes into R&D, and surpassed the United States in this regard by 1997 (Täinen, 1999, 117).

It would be difficult to exaggerate the role of the country’s high level of educational attainment in general, and that of technical education and training, for entering the digital revolution. Mass education had been part of the drive of Finland for independence and nation building. It was a means of fighting Russian domination up to World War II. Today, it is the engine of economic growth. Around 82 per cent of the Finnish population in the 20 to 39 age group have received education from a senior secondary school, vocational or profes-

sional education institution, AMK-institution (polytechnic) or university (Finland in Figures, 1999).

Finland owes its economic vitality also to its entrepreneurship. Entrepreneurship and free markets are widely accepted. The rate of corporate and capital income tax is one of the lowest in the world. In 1997, the maximum rate of corporate income tax on profits in Finland amounted to 28 per cent, compared to 37.6 per cent on average in the European Union, 40 per cent in the United States and 57.4 per cent in Germany (Ministry of Finance, 1999, Figure 4.4, p. 71).

Moreover, a system of sound industrial relations facilitating social peace is certainly among the key developmental assets of Finland. The earlier waves of strikes, especially the major industrial confrontations up to the 1940s, but also the wildcat strike of the 1970s, have disappeared. Of similar significance is the highly developed system of income security and public employment services systems which help redundant workers to cushion their income losses, but also supports job search and job matching.

A major developmental problem remaining in Finland is the uneven regional development. The North and East of the country show unemployment rates much higher than the West and the South. Apparently, this problem is alleviated but not resolved by population shifts and labour migration toward the higher growth areas.

### **A Variant of the Nordic Welfare Model**

Although each country is unique in its labour market structure and welfare system, there are nevertheless clear affinities between countries in the basic pattern of legal and contractual welfare provisions and public and private welfare services. Despite a number of idiosyncrasies, Finland can be seen as part of the Nordic welfare model. That model has been characterized by Tiainen (Tiainen, 1999) as follows:

- System of individual rights supports entry and stay in the labour market;
- Public services offer an alternative to housework and enable high women's labour force participation;
- Earnings-related compensations for periods of joblessness maintain the individual's contact with the labour market;
- Individual taxation, together with a high marginal rate and small wage differentials, are an incentive to having two wage earners. This also enables both breadwinners to earn their own pension based on their own wages;

### 34 Labour Flexibility

- Supply of labour is reduced by relatively good compensation for those not working;
- Supply of labour is reduced by the option of reduced working hours offered e.g. to parents of small children.

The characteristics of this model can be substantiated in statistical terms. Thus, for example, the labour force participation rate in Finland is presently about 72 per cent, compared to 68 per cent in the European Union countries as a whole. The Finnish employment rate amounted to 67.5 per cent in 1999, which was 5.4 percentage points higher than the EU-average. The differences are mainly accounted for by the much higher female employment rate in Finland (presently at about 64.7 per cent), compared to that of the EU average (52.6 per cent). The male employment rate in Finland stands at 70.3 per cent. It is below the European average, mainly because of the economic slump in the early 1990s when it had dropped below the 63 per cent mark of the EU. That is, without the deep economic recession, employment levels for both men and women would have been above EU levels, as they were in fact before the recession. In fact, the employment rate in Finland in 1990 was as high as 77 per cent, exceeding the EU-rate by 15 percentage points.

#### *The Welfare System and Gender Equality in the Labour Market*

Equality of treatment between men and women is an important feature of the Finnish social model. Gender equality in the labour market includes, inter alia, equal access to education and employment, and separate taxation and social security benefits. Finland was the first country in the world to give women full political rights, including the right to be a candidate for parliamentary elections.

In 1997, the Government of Finland prepared a gender equality programme to implement the Platform for Action of the Beijing World Conference on Women. The programme encompasses a total of 96 sub-projects. Gender equality has been mainstreamed in the administration. In 1995, a special gender quota system in the public administration sector had been initiated. It specified a minimum representation of 40 per cent of both sexes in each public administration unit.

Today, the average educational level of women in Finland is as high as that of men. Welfare provisions contribute to a high labour force participation of women and men, and hence also to a high overall employment rate. Thanks to welfare arrangements, such as public child-care provisions, gender-friendly tax treatment and a large sector of personal and social services, women are able to participate in the labour market. In contrast, in many other countries, where the



level of social benefits and social services is much lower, and wage differentials much greater, women are obliged to work in order to secure, or at least augment, family income.

**Table 4.** Employment and family structure in EU countries, 1997

Country	Households			
	Male breadwinner	Man and woman work full-time	Man works full-time woman part-time	Other
Finland	23.2	48.0	8.4	22.4
Germany (West)	33.7	30.2	24.2	11.9
Germany (East)	25.4	45.2	14.0	15.4
Netherlands	34.6	13.4	37.7	14.5
Spain	59.2	25.3	5.1	10.4
United Kingdom	21.4	33.8	31.6	13.2

Source: Koistinen, 2000

In the course of the twentieth century, as Finland developed from an agrarian to a modern industrial and services society, gender relations were profoundly transformed. Earlier, men and women cooperated in their family farm or craft businesses. After World War II, a dual breadwinner/state-care model gradually emerged, based on the full-time integration of both sexes into the employment system. Women and men are seen as individuals who both earn income to support themselves and their children (Esping-Andersen, 1990; Pfau-Effinger, 2000). This model which holds also for the other Nordic countries. It can be distinguished from the male breadwinner/female care model that traditionally prevailed in Germany and in Southern Europe. Men earn the family's income while women take responsibility for working at home and caring for the children. A modernized version of this model sees women as part-time workers as long as there are no dependent children in the household.

While recently gender and family structures in Europe have changed the gender employment patterns described above are still clearly visible. Table 4 shows substantial variations in female labour force participation in Finland, West Germany and the Netherlands, and marked changes within each of these countries from 1960 to 1990. The share of male breadwinner households in Finland was 23.2 per cent, much lower than in West Germany (33.7 per cent), the Netherlands (34.6 per cent) and Spain (59.2 per cent). In these countries, the "home caring society" is much more deeply anchored than in Scandinavia. The share of households in Finland in which both men and women worked full-time

amounted to 48 per cent, and thus was far above other countries. The proportion of part-time workers, and also the rate of women working part-time has been lower in Finland than anywhere else in Europe (see table 5).

**Table 5.** Extent of part-time work, 1997

Country	Total	Male	Female	Female share
Belgium	16.2	4.8	32.3	82.5
Denmark	17.1	11.1	24.2	64.3
Finland	8.2	6.0	10.7	62.0
France	14.9	5.9	25.2	78.8
Germany	14.9	3.7	29.9	85.8
Ireland	15.2	7.0	27.2	72.9
Italy	11.3	5.1	22.2	71.1
Netherlands	29.1	11.1	54.8	77.6
Norway	21.2	7.9	36.8	80.0
Spain	7.9	3.1	16.8	74.8
Sweden	14.2	6.5	22.6	76.3
United Kingdom	22.9	8.2	40.9	80.4
United States	13.2	7.7	19.1	69.8

Source: ILO-KILM 1999, Table 5.

The welfare state arrangements played a central role in the dramatic increase of service jobs for women, particularly by the expansion of public caring institutions. Today, 43 per cent of Finnish women are employed in the public sector, more than half of them in social services. This explains, at least in part, the comparatively high horizontal sex segregation in Finland, meaning that women and men are active in different occupations and economic sectors. According to the index of dissimilarity (ID), the most commonly used indicator of occupational segregation by sex, Finland and Sweden led the industrial world in the manifestation of “male” and “female” occupations, even after the decline of segregation in the 1970s and 1980s (Anker, 1998, 176 and 328). Such segregation tends to lead to rigidities in the labour market and sub-optimal utilization of human resources. Furthermore, it tends to aggravate labour shortages in grow-

ing sectors and occupation. Vertical sex segregation, on the other hand, is comparatively small in the Finnish labour market. That is, the employment and income status between men and women does not differ markedly. In 1994, the average monthly net income of women is 94 per cent of that of men (Nordic Council of Ministers, 1994). One reason is that women today occupy many of the higher paid positions in the public service sector that had been held by men before. However, the information technology sector is still heavily male dominated. Moreover, women are much less represented in managerial jobs. Only about a quarter of the managerial posts in Finland are occupied by women, compared to 43 per cent in the US and 33 per cent in the UK (ILO, *Breaking through the Glass Ceiling*, 1999).

As can be seen from the country rankings in table 6, Finland, as well as the other Nordic countries, have comparatively generous unemployment benefit systems, while the degree of employment protection is comparatively low (in Denmark and Sweden), or about average (in Finland and Norway). The “tax wedge”, that is the proportion of labour income taxed away by income taxes, is highest in Sweden and Finland, compared to other OECD countries. Finland also belongs to the countries with the highest collective bargaining coverage.

If one were to build a welfare state index composed of the four indicators listed in table 6, one would find that Finland would rank together with Belgium in second place (56 points), just behind France with 57 points. The other high ranking OECD countries (with 50 or more points) are Austria (54 points), Sweden (53 points) and Netherlands (50 points). Denmark ranks with 38 points in an upper middle position. Low index ranks are held by the United States (10 points), New Zealand (14 points), Japan (14 points), Canada (18 points), Australia (19 points) and the United Kingdom (20 points).

The ranking is of interest in relation to the ongoing debate about labour market adjustment and unemployment. It has been alleged by OECD and others that labour market regulation and high spending on social security would be detrimental to labour flexibility and adjustment, and would thus contribute to high levels of unemployment, especially structural unemployment. While these propositions need very careful study, at least from the country rankings above the link between labour market performance on the one hand, and labour market regulation and welfare on the other, is not conclusive. Taking unemployment as an indicator of the labour market record, one can see that in the 1990s, regulated welfare countries were among both the good performers (e.g. Netherlands and Austria, lately also Finland) and the relatively poor performers (e.g. Belgium and France). Naturally, this gives merely a partial picture of the situation. To account more fully of the link between regulation and labour market outcomes one would have to look into longer historic periods, and also consider other, more job-quality related indicators of performance.

**Table 6.** Welfare country rankings, 1990s

Country bargaining	Tax wedge protection	Collective generosity	Employment	Employment benefit
Australia	1	10	4	4
Austria	12	18	16	8
Belgium	10	14	17	15
Canada	6	4	3	5
Denmark	8	6	5	17
Finland	17	16	10	13
France	16	16	14	11
Germany	11	15	15	5
Ireland	n.a.	n.a.	12	n.a.
Italy	15	12	20	6
Japan	3	2	8	1
Netherlands	14	11	9	16
New Zealand	2	3	2	7
Norway	9	8	11	12
Portugal	4	7	18	10
Spain	13	9	19	9
Sweden	18	13	6	14
United Kingdom	5	5	7	3
United States	7	1	1	2

Source: R. Layard, *Labour Market Policies in OECD countries: a Typology*, 1998; for column 3 see S. Cazes, T. Boeri and G. Bertola, *Employment Protection and Labour Market Adjustments in OECD Countries: Evolving Institutions and Variable Enforcement*, *Employment and Training Papers*, No. 48, ILO 1999; and for column 4, M. Buti, *Document 11/81/98*, European Commission, DGII and Forwards Studies Unit, Brussels, 1998

*Welfare State Components*

For the purposes of this paper, it is important to conclude that Finland, being one of the countries with the most developed labour market and social security institutions, has been able to have a very dynamic economic development during the past five decades, with above-average economic growth and innovation rates. Finland was capable of moving out quickly from a deep economic downturn. If one would construct an “adaptability index”, as suggested by Allan Larsson (Larsson, 2000), that provides a broad picture of labour supply, skill levels, the capacity to take up new technology, flexibility in working time, industrial relations, etc., Finland would without doubt rank in the top range of countries. This does not mean that Finland’s labour market performance could not be further improved. It can. Structural employment, which is seen by the local constituency as a serious problem, can be further reduced. Adjustments in labour market regulation may help in this regard. What is questionable, however, is the tenet that a general deregulation of the labour market would necessarily generate superior results. It is believed that like in commodity markets, more competition should be enforced in the labour market. The insecurity it generates would provide a potent mixture of fear and opportunity which would be generally good for business, for efficiency and for economic growth. However, instability tends to destabilize social relations, and in turn produce negative effects on productivity and adjustment. What is called for, then, is not deregulation but re-regulation in the labour market in a way that is more congenial with present-day economic and social conditions..

*Income Security and Social Services*

A central feature of the Nordic welfare regime are comprehensive and preventive policies for social security and health, a high degree of universalism and a central role of the public sector in providing health and social services to all residents. As a result of relatively generous transfers and the broad range of social services, the Nordic welfare states have high shares of public social spending. In 1996, Finland’s social security expenditure, if measured as a proportion of GDP, amounted to 32.3 per cent in 1995. Higher rates in Europe were recorded only for after Sweden (34.7 per cent) and Denmark (33 per cent) (see ILO, World Labour Report 2000, 313). The average level of Europe as a whole was 24.8 per cent, in North America, 16.6 per cent and Asia, 6.4 per cent.

In recent year, in addition to gross public social spending, net social expenditure as a percentage of GDP factor costs has been used to measure effective social welfare levels. It takes into account income from social transfers is subject

to taxation. Direct taxes, but also indirect taxes, such as the value-added tax, reduce the consumption power of social expenditure. In addition, the net social expenditure rate makes adjustments for tax reductions, as for example negative income taxes for income earners in Great Britain and the United States. There may also be social outlays which are publically mandated and private social benefits that are publically subsidised. Taking all these factors into account, the net total social expenditure of Finland was estimated to amount to 25.6 percent in 1997 which is still far above average among the OECD country. Mainly due to direct taxes and social contributions and indirect taxes, this rate falls considerably short of the gross public expenditure rate (Adema, 2001).

Partly because of the welfare state, the level of taxation in the Nordic countries is high. In 1995, the tax ratio in Finland was 46.1 per cent of GDP. This was partly due to high outlays to secure incomes during the severe recession in the early 1990s. Only Denmark and Sweden had higher ratios. The average EU rate was 41.98 per cent, the mean rate in the OECD stood at 37.4 per cent, the US rate at 27.9 per cent.

Taxation of labour is also high in Finland. After Germany, Finland had the highest "tax wedge" among the industrialized countries, i.e. the highest income taxes and social security contributions as a percentage of labour costs. In the two countries and in Sweden, the percentage was just over 50 in 1996 (Ministry of Finance, 1998, Figures 4.1 and 3.6). The tax wedge gives rise to a discrepancy between the employer's labour cost and the employee's net income. Moreover, Finland has high marginal tax rates reflecting the profitability of earning additional income. Theoretically, the taxation of labour affects both supply and demand: high marginal tax rates reduce the incentive to work or to gain additional income. The increase in labour costs resulting from taxation reduces the demand for labour, particularly in labour-intensive industries. For this reason, the European Commission has recommended to lower the taxation of labour, and instead increase consumption taxes to finance social security. Given the high employment rates and the declining unemployment in the Nordic countries, it is questionable whether the negative effects of high labour taxation are that powerful. Furthermore, if welfare is not financed from taxes and social security contributions, it must be financed otherwise. In fact, expenditure on social protection in the United States amounts to 93.6 per cent, and is not much lower than in Sweden (41.2 per cent). But while in Sweden only 4.4 per cent are financed privately, it is 29.2 per cent in the US (table provided by Allan Larsson).

While there may be a question on how the welfare system should be financed in order to avoid negative effects on the labour market, there is hardly any question about the positive impact of social security on economic performance and social stability:

- Social security expenditure can spur productivity improvement because the high cost acts as incentive for the employer to rationalize production and save labour. After Ireland, Finland had the highest rates of increase of labour productivity among the industrialized countries in the period 1979 to 1996. In fact, productivity improvement in these two countries was more than twice as high as in the average OECD country (Ministry of Finance, 1998, Finland, 59). Of course, this is to be explained by other factors as well. Nevertheless, it is clear that productivity improvement in the Nordic countries is not hampered by welfare state arrangements.
- There is a statistical relationship between social spending and the openness of a country to foreign competition (see ILO, World Labour Report 1998, Chapter 4). Finland is a case in point. It is one of the more open economies. In 1998, 41 per cent of the goods and services were exported. Exposure to international competition accelerates structural change in the economy, requires adjustment of the labour force and increases the risks of structural and frictional unemployment. Social security is needed to cushion the negative effects of structural change. If income security is inadequate, globalization is not sustainable.
- Social security helps to prevent big income inequality. Indeed, Finland is one of the countries with the smallest disparities in disposable income. For 1997, the Gini index, the most standard measure of income inequality, shows a value of 25.6 for Finland. Only Austria (23.1), Denmark (24.7), and Belgium, Norway and Sweden (25.0) had slightly lower values. In comparison, the values for the UK are 32.6, the US 40.1 and Brazil 60.1 (see KILM, Table 18a).  
In addition to levels, the trend of income equality has to be considered. As in most other industrialized countries, the income distribution in Finland became more unequal in the 1990s. Partly as a result of rising capital income, average income in the highest decile rose by 20 per cent between 1990 and 1997, whereas that of the lowest decile decreased by 6 per cent. From 1981 to 1994 the Gini-coefficient for market income in Finland rose by 10 percentage points, particularly post-1990 with the economic difficulties faced at that time. This was however offset by the transfer payments from the government budget to the extent that inequality in disposable income did not increase. Since 1994, however, the picture in Finland has changed as a result of policy measures cutting the redistributive impact of transfers, which have led inequality of disposable income to rise more than that of market income (Atkinson, 1999, 19).
- Social security helps to prevent poverty. Absolute poverty in the sense of deprivation in basic needs, such as nutrition, water, shelter and primary health care, does not exist in Finland. Rather, poverty in Finland is relative

poverty (Ministry of Foreign Affairs, 2000). This is normally measured by the proportion of people with an income less than 50 per cent of the median income, or through a measure of income inequality.

What is important to note is that thanks to the income redistribution effects of the welfare state, poverty in Finland during the depression in the early 1990s increased only marginally. The poverty rate rose only from 3.6 per cent in 1990 to 3.9 per cent in 1996 (Ministry of Foreign Affairs, 2000). Social transfer payments also helped to stabilize aggregate demand for goods and services, and to maintain social peace in the country.

Currently, the most important single cause of – the comparatively low – poverty in Finland is unemployment, especially long-term unemployment.

- Finally, social security has contributed to making Finland one of the world's safest places to live in. Serious crime is less common than elsewhere. The likelihood of becoming a victim of crime is the least in Finland. It is less than half of what it is in the United Kingdom, New Zealand or the United States. Together with Ireland and the Netherlands, Finland has the least number of prisoners per 100,000 inhabitants – just over 50, compared to 300 for the United States. All Nordic countries have low rates in this regard. Personal safety is not merely an expression of quality of life, it is also a competitive advantage and a conducive factor for inward investment. Employer surveys indicate that Finland and Denmark are considered the countries with the lowest cost burden to business from organized crime (Ministry of Finance, 1998, p. 109).

## Summary and Conclusions

In the last week of June 2000, the heads of state and government met in Geneva in a Special Session of the United Nations Assembly to assess the economic and social progress achieved in their countries during the five years since the World Summit for Social Development held in Copenhagen in 1995. The world leaders had then pledged to make every effort for improve the social development and human well-being in their countries. According to Commitment 3 of the Copenhagen Declaration, action to promote full and productive employment was be given the highest priority in national economic and social policy.

Without doubt, Finland shows one of the better records of development in the second half of the 1990s. While its level of unemployment is still high (around 9 per cent), it was brought down from a level twice as high in the mid-1990s. A high rate of economic growth, a thriving and robust economy, a diversified economic structure, and a lead position in the rapidly growing ICT sector bode well for sustained improvement in the years to come. Structural unemploy-



ment, however, remains a serious problem. Unless it is tackled, it will be difficult for the country to return within a reasonably short period to the high employment rate and very low unemployment level that the country had enjoyed in the 1980s.

The speed and solidity of the recovery of Finland's economy from the economic depression in the early 1990s has been remarkable. The national economy gained competitive strength. In fact, Finland's industry is rated as one of the most competitive ones worldwide. Today, the Finnish economy appears to be more resilient to crisis than before because it is less dependent on a few sectors and its trade links are greatly diversified.

It is interesting to compare Finland with the dynamic countries in East and South East Asia that faced a financial and economic crisis in the second half of the 1990s. While most of the crisis-stricken Asian countries also managed to return quickly to a positive growth path, the social fallout of the Asian countries has been much more serious and lasting. During the Finnish recession, poverty rose only slightly, while in Asia it struck deeply. The decisive difference lies in the social welfare arrangements. Finland commands one of the most developed welfare states whereas the Asian tiger countries lacked social protection for the redundant workers and their families.

Both the fast economic recovery from the recent economic slump and the rise of Finland from a comparatively backward, poor European country in the first half of the twentieth century to one of the top performers at the end of the century can largely be explained by policy choices enabled by the country's vital labour institutions. There is ample evidence for this link from the statistical data presented in this paper. The policymakers themselves in Finland – be it the government or the employers' and workers' organizations – attribute the developmental success to the institutional arrangements, including the system of education and labour market training; the inclusive and cooperative system of industrial relations and the associated social dialogue between the social partners and the government involving a high degree of consensus on strategic developmental issues and ensuring a high degree of mutual trust and social peace; the welfare state, which has weathered the economic crisis without major encroachments, and vital entrepreneurship and a competitive environment in product markets. The economic setback of the early 1990s was clearly the result of external factors – the collapse of the Soviet Union as a major trading partner – and misguided macroeconomic management in the 1980s – rather than effects of the institutional framework.

By international standards, Finland has accomplished a fairly high degree of social inclusion, although there is room for further improvement. Many unemployed workers, young people, ethnic minorities and the homeless remain to be integrated in mainstream society. In this regard, Finland, as one of the signatory

nations to the Covenant on Economic, Social and Cultural Rights, was criticised by the relevant UN Committee in its December 2000 Session that, despite initiatives taken, discrimination against foreigners and ethnic minorities would persist, especially in employment (see Press Review, 5 December 2000).

The social institutions and policy choices largely explain the country's social and political stability, economic dynamism and prosperity. A very large proportion of the population is well educated and trained in labour market skills, participates directly and indirectly (through encompassing collective social organizations) in decision-making in crucial spheres of life, and benefits from the comprehensive right-based welfare system. The disparities in earnings and incomes are comparatively small which explains a good deal of the low poverty rate, but also enables all people to act self-responsibly and create savings to support domestic demand.

Finland's lead position in the high-tech sector is partly due to its early deregulation of the telecommunications industry, and the public and private investments into research and development. These are crucial factors that in my view explain its better performance in this sector. Compared to Germany and other EU countries, Finland started early to deregulate its high-tech product markets. As a result, Finland is among the countries with the lowest priced telecommunications services whereas Germany is in this respect one of the most expensive countries. Another factor of importance is that Finland was able to modernize its universities in time and adapt them to economic change while Germany's reform efforts in this area have met with strong resistance. The divergent development between the two countries in recent years can obviously not be explained by the labour market institutions, because both countries have not substantially deregulated their labour market.

Despite the impressive overall economic and social record of Finland, there are a number of weak points in the employment and development area that have to be addressed. The main actors in the country are aware of them. Among them are uneven regional development, the sex segregation in the labour market, and declining health care expenditure which show that Finland dropped to 31<sup>st</sup> place according to the index of the World Health Organization. Unemployment, especially among the young and old workers, needs to be further reduced. Labour market policy reform will have to continue in Finland. But whatever measures will taken it is unlikely that Finland will let itself be drawn into the "diabolical choice between more and better jobs" (Robert Reich) that policy-makers in many other countries see as their dilemma. The international community will look with particular interest at Finland to see how, under its National Programme on Ageing Workers, the country will succeed in improving the employability of older workers. Equally of interest are the outcomes of the Action Programme on the Development of an Information Society, aimed at

enhancing access of workers to ICT-intensive sectors and jobs. Finland should have a good chance to prevent a “digital divide” in the labour market between the young and the old, and between the computer literates and illiterates.

### 3 Recovery in Finland in the Late 1990s – Continuation of the National Project?

*Seija Virkkala*

#### **Introduction**

National models are viewed as holistic units when analysing and understanding the development, formation and change of nations. We can use the concept of a national model in at least two different ways. Firstly, national models are used as a means of combining different policies and sectors, of setting national aims, and of formulating strategies at a national level. Secondly, national models are comprehensive and broad approaches to the institutional settings of a society, which include the whole dynamics of development produced by national institutions. There is continuity in the developmental path of a nation reproduced by national consciousness, shared experiences and collective memory. National institutions bring long-term stability into the developmental path stemming from their own history. They also constitute the political choices and strategies made by the nation. The strategic choices can sometimes reformulate the developmental path (e.g. North, 1990).<sup>1</sup>

The state is a political organisation covering a particular territoriality, surveillance capacities and monopoly over the means of violence. A nation for its part is a community of people with a common identity, which is typically based on shared cultural values and attachment to a particular territory. As cultural communes, nations are constructed of people's minds and collective memory through a sharing of history and political projects. The nation-state is the most powerful combination of nation and state. Hence, in the current world there exist nations without states as well as states with more than one nation. (Paasi,

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<sup>1</sup> According to North (1990), the institutional framework of societies has been an important determinant of their economic performance throughout economic history. North sees the institutional structure of a society as a hierarchy where each level is more costly to change than the previous one. North's definition of an "informal institution" includes the culturally embedded norms, customs, traditions, conventions, customs, sanctions and codes of conduct.

1996). Nations are entities independent of states (Keating, 1996). They are not always oriented towards the construction of a sovereign nation-state.

The process of nation-building aims at binding the state and its inhabitants together. Nation building is a metaphorical expression. Nations cannot be built following different plans, using different materials, rapidly and gradually, in different sequences of steps. Rather, nation-building can be regarded as a theoretical abstraction referring to a process which has both internal and external interdependence in space and time. It is hence a time-space-specific, context-dependent process (Paasi, 1996, 42).

Nation-building and nationalism has typically witnessed the absorption of smaller regions to larger units of territorial, political and economic organisation. The evolution of the existing system of territorial states in Europe can be described as a gradual integration of peripheral regions into a nation-state, usually driven by a nation-building elite at its centres (Rokkan and Urwin, 1983; Vegge-land, 2000). The process of nation-building has been formulated as a four-stage model: from territorial consolidation and administrative borders through cultural standardisation and separation to the introduction of mechanism of redistribution with the state as an active agent of economic and social development and planning.

In this article I will examine the recovery that followed the depression in Finland in 1991–1993 from the perspective of a national project. I question if the traditional idea of national interest has been retained despite the economy being increasingly globalised and the regulations of the economy being shaped by the rules of European union policies. My focus is on the regional aspects of the changing national policy.

### **National Projects in Finland**

A national consciousness arose in Finland in the late 18th century, and the nation-building process began as a part of the Romantic Movement. According to this movement, nations have their own character which is bound up with language, poetry, history and arts. The nation-building process led to the creation of the provinces of Finland, where region-building contributed to national integration. (Paasi, 1996; Virkkala, 1998). In this stage the nation-building was emphasised through education and culture.

After the war in 1939–1945, nation-building continued with a greater emphasis on industrial growth. The project of building up an independent, prosperous Finland has been one aspect of nationalism. Industrialisation was partly state-directed. The state has considered the prerequisites of the modernisation of the Finnish economy to be a great investment, and it has conspicu-

ously contributed to these. (Pekkarinen and Vartiainen, 1992). Part of the industrialisation included the state aiming at mobilising the resources of peripheral regions to the growth.

In the 1960s and 1970s, the building of the welfare state was an essential part of the national project. The state compensated the disadvantages of peripherality by redistribution, giving all parts of the nation the same status and all citizens the same national services, wherever they lived. The state and municipalities were responsible for the welfare state service production. Regional policy was part of the building of the welfare state. The “small” regional policy aimed at resource mobilisation and economic growth, the “big” regional policy brought national integration, equalising the welfare differences and the accessibility for services.

The national projects were constituted by the specific spatial structure of the country characterised by wide rural/forest areas and small cities. The forest areas supplied the resources necessary for national growth. The industrialisation of the forests created industrial communities with local welfare and authoritarian order (Koskinen, 1997). The regional distribution of forest income was one basis of the national integration.

The national projects have strengthened the role of the central state and prevented the creation of regions and regional institutions as an opposite pole to a centralised state. Thus, region-building and nation-building became parts of the same project. National and regional identities – the national “we” and the regional “we” – are the same in content.

In the 1990s, the national policies have been adapting to the conditions of EU integration and harmonisation. The national monetary policy has ceased after the introduction of the EMU in 1999. Structural fund policies have influenced and formed the core of employment policy and regional policy. These processes, the strengthening of supranational policies and regionalisation, are changing the role of the central state.

In the time of the recovery, the national project can be seen firstly as giving legitimacy to public cutbacks as the resources were allocated to the export sector. Secondly, the conscious building of national strategies managing structural changes, such as the proactive strategy of the technology policy, can be seen as a continuation of the national project. This national project, the building of a knowledge-based society, is an answer to the challenges arising out of global integration of the economy. However, it is only one factor behind the process of transition of the national project.<sup>1</sup>

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<sup>1</sup> This connection of knowledge society as a new form of nationalism and national project is pointed out also by Castells and Himanen, 2001.

### **Crisis Consciousness and Restrictions**

The recovery in the mid-1990s can be characterised as a creative destruction: a reorganisation of business and production processes, renewing the old industrial plants and beginning new activities. At a macro-level a new key cluster, information and communications technologies, was evolving into an engine of production and employment. The economic growth based on new industrialisation and expansion of business services was a contrast to the expansion in the 1980s during which the public sector was the greatest driving force. (Kalela et al., 2001). The direct growth contribution of public demand was almost non-existent, but the new industrialisation was facilitated by and contributed to the measures of the public sector. The economic and industrial policies were concentrated on building the conditions for exports.

A great deal of the economic resources was allocated to creating conditions for recovery, which meant restrictions and cutbacks for other purposes. The legitimacy of this policy was possibly because of specific characteristics of nation-building in which the state and society were identified. Public cutbacks were accepted because the nation-state defended the national sovereignty. There was a feeling of anxiety because of mass unemployment and a bank crisis. The mass unemployment – which in 1994, at more than 20 per cent, was at its highest – touched almost everyone indirectly. Also, the financial debt was seen as a threat. This crisis consciousness produced an atmosphere and willingness to accept the public cutbacks (Kiander and Vartia, 1998). The feeling of threat could be compared only with that felt in wartime. The decision-makers appealed to the feelings of solidarity. Paying on debts is part of the national sovereignty, the core of the national project.<sup>1</sup>

Individual citizens changed their behavioural patterns: people began to pay back their debts, worked harder and many sought new training opportunities to upgrade their skills. (Kalela et al., 2001) They adapted and were more flexible in the labour market (Jolkkonen et al., 2001). Even though the welfare state made the adjustment process easier by helping to maintain family incomes and preventing poverty, it did not succeed in avoiding the birth of relatively large-scale, long-term unemployment and social exclusion. In 2001, there were about 250 000 people unemployed with an unemployment rate of 10% (VATT 2001).

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<sup>1</sup> The concern of the classification of international creditworthiness was an argument when appealing for the restrictions.

Finland's solidarity, based on the shared history and relatively small social distances of its people, is expressed in the situation of the national crisis.<sup>1</sup> In the time of economic crisis the national consciousness and solidarity gave wide acceptance to the public cutbacks and restrictive income policy. For example, the trade unions contributed to stabilising the economy and building favourable conditions for exports.

Finland was soon able to return to fiscal surpluses after the recession. The export competitiveness of Finnish firms was re-emphasised as a key policy. In fact, in 1994–1999 every industrial sector increased its exports, the biggest increase being in the ICT cluster.<sup>2</sup> (Talousneuvosto 2001; Kalela et al., 2001; Kiander, 2001.)

Kalela et al. (2001) point out that the Finnish adjustment process was partly a consequence of integration; a change toward more openness, higher exports, more imports, mergers and international ownership, relocation, and finally job creation. Firm structures integrated rapidly according to the logic of the single market. The internationalisation of firms and foreign ownership has affected the structure of labour demand and labour market adjustment in Finland before, during and after the recession. As a result, Finland is more deeply integrated into the global market and is effectively utilising the growing network economy.

### **The Growth of the ICT Cluster as a Basis of Recovery**

One reason for Finland's recovery has been the development of the ICT sector as a third pillar of the economy beside the forest and metal clusters, in which sectors the increases in output do not create new jobs (Hernesniemi et al., 2001).<sup>3</sup> Many different factors have enforced the favourable development of the Finnish ICT cluster. The demand conditions have been largely shaped by favourable impacts from the public sector and the government has been a catalyst

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<sup>1</sup> A similar feeling of solidarity is also one of the basic values of the universal welfare system (Julkunen, 2001, 260).

<sup>2</sup> The GDP grew in 1994–2000 at an average of 4.7% per year, and exports grew 10.7% per year. However, by the end of 2001 this growth had stopped. (VATT, 2001).

<sup>3</sup> The change of the industrial structure can be characterised by the composition of the GDP. While the electronics industry increased its value of GDP three times in 1975–2000, the share of the consumer industry has decreased, but the proportion of the basic industry (pulp & paper) have remained the same (VATT, 2001).



for industrial development. The development of ICT bases of expertise and technology development and its expansion in the 1990s profited from the soft investments made in education and high technology infrastructures in the long run. According to Paija (2001), the expansion of the ICT cluster in the 1990s is an outcome of a dynamic self-reinforcing process in which coincidental factors have also played a role.

The growth of ICT was favoured by the liberalisation, globalisation and re-orientation of Finnish technology policy in the 1980s. Liberalisation in telecommunications has promoted the breakthrough of digital communication. Competition stimulated the rapid penetration of mobile services. Globalisation provided the markets for the cluster. The traditionally monopolistic telecommunications equipment and service markets were gradually liberalised. Finnish technology policy promoted the innovations and building of the clusters. (Paija, 2001.)

Government bodies played the role of the demanding customer. First, domestic firms with incubating know-how in radio technology received the required motive to come out with physical products, which ultimately served as prototypes of export. Later, the public sector, together with the other Nordic administrators, created a competitive cross-border mobile market. The industry got a first-mover advantage in the new market and the Nordic standard spread widely throughout Europe and Asia in the 1980s and 1990s.

Finnish ICT activities are heavily dependent upon one core company, Nokia, which accounts for almost half of the sales in the ICT cluster. Despite Nokia's global networks, the know-how and established supplier relationship in Finland have not lost their importance. Important portions of product development occur in Finland. The supporting industry has been able to respond to the increasing demands on the global customer, especially regarding the variety of advanced customised products. Application software and content-production services are boosting the demand for infrastructure (Ali-Yrkkö, 2001; Paija, 2001; Lovio, 1996).

The development of the regional ICT clusters is a new investment round in which the spatial division of labour is different from the earlier ones.<sup>1</sup> This new layer and specialisation is anchored only in a few regions, the biggest urban areas in Finland.<sup>2</sup> (Antikainen and Vartiainen, 2002.) These agglomerates have gener-

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<sup>1</sup> The spatial division of labour and its interdependency on social structures is pointed out by Massey (1984). The role of the big firms producing the spatial division of labour and shaping the regional differences in Finland is pointed out by Virkkala, 1987.

<sup>2</sup> And in the region of Salo (see Antikainen and Vartiainen, 2002). The growth centres are the capital area Helsinki, Oulu, Tampere, Turku and Jyväskylä.

ated new jobs especially for highly educated people. The firms belonging to the ICT cluster are utilising the knowledge produced by universities and technical research institutes as well as the pool of skilled workers. They are also themselves contributing to the creation of production factors. The implicit logic of the ICT agglomerates has been both the engine of economic change as well as one factor of regional concentration. The firms are producing spatial division, for example, between the ICT agglomerates and other regions. The result has been economic growth at the national level, but an uneven development regionally.

### **Local, Global and National Activities of the ICT-firms: the Case of Oulu**

Even if the big firms of the ICT cluster are global actors, they are embedded in the national environments. For example, Nokia serves both as a user and as a producer in the national innovation system (Ali-Yrkkö and Hermans, 2002). To show how deeply embedded the ICT cluster is geographically as well as how its dynamism is contributed to by public sector agents, a brief look at the developmental path of one regional ICT cluster, Oulu, will be provided. Up to the 1970s, Oulu was a traditional industrial city. High technology-based entrepreneurship emerged as a phenomenon during the 1980s, and was enhanced by the city government and other actors.

In the 1970s, the firms of traditional sectors were diversifying in electronics. The firms saw electronics as a means to alleviate the stagnating or slowing development caused by the maturity of the main sector (Männistö, 2000, 82–84). For example, the electronic industry began in the Oulu region when the old forest industry was diversifying in electronics. Also, Nokia had a cable factory in Oulu in the 1970s, which first diversified into electronics with the production of military radio equipment at the order of the army. Afterwards, the production of non-military radio equipment was started in Oulu, which led to a rapid development of the industry (Ahokangas et al., 1999). In the mid-1970s other electronic industries were located in the Oulu region. The main impetus was the foundation of the department of electronics at the State Technical Research Institute in Oulu in 1974 as a part of the national regional policy. The research in electronics had begun already by the technical faculty of the university which also trained engineers. In the beginning of the 1980s, the faculty made a lot of effort to gain legitimacy for the education and research of electronics.

In the 1980s, the city of Oulu established itself as a city of technology. The local media facilitated the creation of this image. The local actors started to invest in new technologies and knowledge-based industries. For example, the Technology Centre was founded in 1982. Later on, the Technology Centre

profited from the growth of R&D activities at Nokia. Nokia and its partners occupy the centre. In the 1990's crisis the locality also was active in an expertise programme, focusing its strategy on telecommunications, optoelectronics, biotechnology, and medical technology.

The ICT cluster in Oulu has grown to an agglomeration based on business-to-business relationships in which the production factors are created locally. The university is supplied the workers and produces partly the knowledge to be applied. The agglomeration consists of a network based on a different joint ownership structure – Nokia or Elektrobitt, for example, being the owners. Cooperation has promoted know-how among the partners. The network is generating new firms that have gleaned the benefits from the agglomeration. There is an institutionalisation process that has resulted in the firms being similar to each other (Männistö, 2000). The network, however, is asymmetrical. The big firms set the norms, influences and values through the network and also through the ownership structure.

Some researchers even argue that Oulu is an ICT community itself. The firms are not only adapting to the changes of the environment, but they are also creating them. In this process they are also creating a common local culture, a way to conceptualise the environment. This kind of creation is stronger inside the ICT industry than in the more traditional industry. (e.g. Lovio 1993). The development of an ICT cluster in Oulu has begun due to a locational window.<sup>1</sup> Later, it has been growing through cumulative causation. Ylinenpää and Lundgren (1999) explain the development of the ICT cluster in Oulu with three factors: the national role of the city of Oulu as a centre of Northern Finland, regional cooperation between different actors, and the importance of Nokia as a demanding customer for SMEs. According to the “new economic geography”,<sup>2</sup> spatial concentration of economic activity itself creates favourable circumstances that support further and continuing concentration. The spatial advantages are, at least partly, endogenous. There is a cumulative causation process in regional development, and the role of forward as well as backward market linkages in the evolution of agglomeration economies. (Tervo, 2000; Ritsilä, 2001). The new human capital built upon education, experience and social networks is generated by previous human capital. The advantage of the concentration of knowledge and human capital attracts other production factors.

The ICT agglomeration is growing in the dynamics of Nokia. On the other hand, Nokia and other big firms are using the production factors that are cre-

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<sup>1</sup> The concept originated from Scott and Storper, 1989.

<sup>2</sup> The concept originated from Krugman, 1991.

ated and embedded in the agglomeration. Even if the network is being generated around suppliers of Nokia, Nokia itself has a global supplier network and the firms in Oulu must compete with this global supplier network (Männistö, 2000).

### **New Geography of Recovery**

During the earlier investment layers in Finland in the 1970s and 1980s the public sector-based employment expansion, late industrialisation of the peripheral areas and the big regional policy all had influence in an equalising way. The income differences between the regions were narrowing and continued during the depression in the beginning of the 1990s. The same trend has been shown with other welfare indicators (Loikkanen et al., 1999; Kangasharju et al., 1999; Tervo, 2000). During the recovery, this trend has stopped and since the mid-1990s regional income differences have increased (Kangasharju et al., 1999). The reasons for this are the weakening of the transfer mechanisms, public cutbacks, and regional concentration of production.

Public sector employment has not contributed to the regional balance in terms of employment, instead the decrease of public employment has been the smallest in the growing regions (Moisio et al., 2001). Public cutbacks affected especially those regions whose economic structure was specialised in the public sector.

The regional concentration of production has been strengthened. For example, the regional growth rates have been differentiated. During 1992–1997, the gross production of the Helsinki region was growing at a rate of about 40 per cent, while rate of growth in the whole country was 30 per cent. (Valtioneuvooston kanslia, 2000.)

In Oulu and in other big growth centres the dynamism of the ICT cluster is resting on only one element of the local economy and even in these centres we can find high unemployment (Kerkelä and Kurkinen, 2000). The ICT cluster has been the engine not only behind economic growth but also of regional concentration causing in-migration. New jobs have been generated in the ICT cluster and other high tech branches, and the workers are recruited from the regions or through in-migration. Even 30% of the increase in the labour force in Oulu came from in-migration in the years 1995–1999 (Kerkelä and Kurkinen, 2000). The skills of the unemployed in the Oulu region are not necessarily improving and structural unemployment has remained.

The old clusters have also been growing in production during the recovery but their growth has been mostly jobless. The almost causally perceived connection between local economic growth and employment has changed in the 1990s: some regions of strong positive economic growth are suffering from massive

unemployment and out-migration, and vice versa. (Vartiainen and Antikainen, 2000.)

The recovery has brought wealth but also frustration, because the correlation between growth and employment ceased in many localities (Antikainen and Vartiainen, 2002), which in turn is because of growing income differences and the high amount of structural unemployment. Other localities outside the growth centres are in a vicious circle concerning the decreasing production and unemployment and the growing out-migration. The income transfers consist of a great deal of local income.

### **Knowledge Society as a Proactive Strategy and as a National Project**

The growth of ICT is only one part of the Finnish transformation process into a knowledge-based society, which can be seen as a conscious strategy and political choice for developing skills (for example, Schienstock and Kuusi, 1999). During the 1990s, the “knowledge society” became the new systemic vision in Finland which guided the various actors in the restructuring process (Schienstock and Hämäläinen 2001, 33). It became the basis of practical restructuring processes. All central actors have been determined in investments in knowledge and skills. The transformation process to a knowledge society is a collective undertaking and national project containing the development of knowledge as a production factor and upgrading of skills as well as the inclusion of everyone in the knowledge society through accessibility of information networks. The project has some similarities to the earlier national project aimed at national prosperity and integration: building a nation through culture and education, industrialisation, or through the welfare state.

The economic argument for knowledge society is based on the concept of economy according to which growth is innovation driven and innovation is the outcome of interactive learning. This concept is often derived from evolution economics and the new growth theory (Leiponen and Ylä-Anttila, 2000; Lemola, 2000). In Finland one basis for formulating the technology policy and industrial policy has been the concept of the National Innovation System.<sup>1</sup> The system involves all those elements that contribute to the generation, diffusion and application of new knowledge (Ormala, 1999). It includes the organisations and actors whose activities and interaction determines the innovativeness of the national economy and society (Vuori and Vuorinen, 1993). The firms are the

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<sup>1</sup> The adoption of the concept of NIS or “learning economy”, introduced by Lundvall (1992), has been the most important.

most important actors, but according to Edquist (1996), creating innovation is a collective effort in which many organisations and actors participate. These actors are clients, subcontractors and competitors.<sup>1</sup>

In the 1990's, the economic arguments were strengthening in the national project instead of the earlier political argument. The strategy "Finland towards the information society – national lines" (1995) by the Ministry of Finance pointed out the competition and national competitiveness. The global firms are maximising the knowledge they need, not only minimising the costs. The nations with much of the knowledge are managing in this competition. (Lemola, 2001). This reformulated task of the state was developed in the form of a national project: the state was defending national interests against international pressures and improving its national competitiveness. The national advantage of embracing a knowledge society has been expressed also in different national sector strategies, such as the national employment strategy, national educational strategy, and national strategy for industrial policy.

A shift in direction to productivity issues can be seen also in policy implementation. Technology policy became central to the new growth strategy, and increasing national R&D inputs became the central goal of technology policy (Schienstock and Hämäläinen, 2001, 37–38; Lemola, 2001). In the 1990s, public funding was redirected away from a technology orientation (the beginning of an innovation chain) towards a market orientation (the end of the chain). Throughout the 1990's both education policy and industrial policy were developed towards supporting innovative performance (Ormala, 1999). The aspects for economic and industrial policies has benefited other sector policies (Jääskeläinen, 2001). The previous domestic objectives were continued in a new, more globalised, open context suited as well to the policies of the EU.

"The knowledge society for everybody" has been the explicit aim of many national strategies in the 1990s. According to this slogan, the whole population should be provided with the basic know-how in and possibilities for using information society services. Information networks should be widely used as tools to modernise both private and public sectors. Knowledge society strategy can be seen as a dominating social strategy and its main elements are repeated

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<sup>1</sup> According to Lundvall (1992), the NIS concept was introduced by Freeman in 1987, when he was analysing the technology policy in Japan. The concept as such is vaguely defined as the system of organisations and actors whose activities and interaction determine the innovativeness of the national economy and society.

and adapted by many localities, regions, firms, and organisations as their own main visions and strategies guiding them.<sup>1</sup>

There is an element of construction of the national “we” in the building of knowledge society in Finland. National programmes for knowledge society have been broad efforts strengthening the national institutions, such as the educational institutions, in a reformed way. According to Karvonen (1999), the argument for knowledge society programmes is appealing to the national emotions, much as the appeal for independence. The strategies are trying to construct us as Finns. The way to argue is more normative and obliging than just description based on the information society. The ability to use networks in work and in the private sphere is an obligation for every Finn. The concept of knowledge society as such brings the image of a society ever more based on technology.

### **New Governance in Industrial and Regional Policy**

The state has had an important role as an agent of economic change towards the knowledge-based economy (Kuusi et al., 1996; Vuori and Vuorinen, 1992; Jääskeläinen, 2001). Additionally, the state began to be a coordinator of different interests of industrial and economic policy instead of directly controlling the sources of wealth. This shift can be characterised by the concept of governance, which refers to the phenomenon that decisions are often taken into policy networks and communities, who constitute a system that is broader than the institutional structures of government. (Loughlin, 2001) According to Rhodes (1996), new governance should be seen as a new operating code on par with other codes of conduct, for instance markets and hierarchies. He argues that there has been a gradual transformation from a system of government into a system of governance.

The setting for industrial policy design in Finland is characterised by intensive and informal communication between the government, industry, academia and the labour market. The public and private sector agents are competing and interacting with each other, but the priorities are determined by the competitiveness of the export industry and the balance of the public budget. During the

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<sup>1</sup> The national knowledge society has been influenced by technological visions and technological determinism. In earlier visions the knowledge society was presented as inevitable. It was formulated in Finland by some researchers in the 1980's as a totally new social formation (Kortteinen, Kivistö, etc.). Many writings of social scientists, such as Bell, 1973; Masuda, 1981; or Toffler, 1984, have had an influence also in Finland in the 1980's, and Castells (1996) had an influence in the 1990s.

time of economic recovery, the old institutions have been reformed and combined with the market ethos and managerialism (Julkunen, 2001, 286; Kantola, 2002).

In regional policy in Finland, the central government has been traditionally the central actor. However, since 1995 it has been in the process of being substituted by a much more complex pattern of governance. The change to governance has been linked with a change of constructing and mobilising regional and local actors. The regional level actors have been constructed through the foundation of a new regional actor, known as a Regional Council created by the Regional Development Act in 1994, through decentralisation inside the central state to regional state offices, and through inter-municipal cooperation. Compared to many other western European countries local presence is strong in the regional development process and this seems to be vital for the legitimacy of regional development activity. Regional actors have gained competence, which can be seen as a precondition for the evolution of regional development policy based on regional initiatives and on regional resource mobilisation. (Virkkala, 2002; Lidström, 2001; Svensson et al., 2002.) This process can be seen as a response to globalisation, EU-integration and the financial crisis in the public sector.

Regional governance is a complicated game of negotiations, where priorities are set by bottom-up organisations, municipalities or joint municipal unions (Virkkala, 2002). It can be characterised as a multi-level governance system in which the programme work on different spatial levels is parallel and the actors are reflecting each other. At the regional level there is a division of labour but also competition between the main partners. The negotiation and competition between regional state offices and municipality-based organisations are characteristic of the Finnish system.

The state-centred tradition can still be seen in regional development, where efforts at regionalisation do not challenge the state (Virkkala, 2002; Valle, 2002). The central government is prepared to experiment with new forms of governing. The strong state tradition seems inclined to pave the way for regional development models that creates semi-public institutions, such as regional development agencies. They may separate service provision and political decision-making that distance them from traditional forms of administration and indicate a development towards neo-corporatism (Svensson et al., 2002; Halkier et al., 2000)



## Conclusion

According to Sengenberger (2002), the recovery in the late 1990s in Finland was due to a high level consensus among key groups in society, a high degree of equality and social inclusion as well as effective use of human resources. He points to the institutional preconditions of recovery as well, such as education, a functioning labour market, industrial relations, and social dialogue.

The social consensus in the economic crisis was possible due to the national consciousness, which has been produced by earlier national projects aimed at national integration. National projects have been cultural, economic, social and political-administrative. The cultural project was building the national identity, emphasising language, history and geography with a broad educational system as a means of socialisation. The economic project mobilised the resources to support the national economy. The building of the welfare state generated social integration. The political-administrative project reinforced the role of the central state and its relationship to local authorities and municipalities.

In the recovery in the late 1990s, some longer-term big investments, like the investment in human capital, gained profits. Globalisation and liberalisation favoured the Finnish economy and recovery based on the growth of the private sector. The national policies and allocation of public resources to the building of institutions supporting ICT-based growth received legitimacy as a national project. In the management of the economic crisis we can see continuity of the national project, in the building of the “we” in the context of the knowledge society.

The national integration produced and aimed at by the earlier national projects is changing due to new regional and social disparities and EU integration. The ICT cluster, the economic engine of recovery, has been growing only in a few centres. Many localities, regions and people have not been needed in the core of the new cluster producing the wealth. The disintegration has until now been prevented by the redistribution mechanism and by the efforts to integrate every citizen into the knowledge society, helping them to access the information networks. One alternative to prevent the economic geographical polarisation could be a technology policy having explicit regional aims which could take into account both the needs of the ICT cluster and of the more traditional sectors, firms and localities.

The recovery has brought wealth but also frustration. The regional and social disparities implicit of the new growth cluster can in the longer run, together with the globalisation process, be sources of disintegration. As national integration and the transfer mechanism are becoming weaker and the principle of competition is gaining, many localities are in a position to become marginal-

ised. The basis for national solidarity in the future seems to be much smaller than in the beginning of the 1990's.

## 4 Socio-economic Development in Finnish Urban Regions

*Janne Antikainen and Perttu Vartiainen*

### Introduction

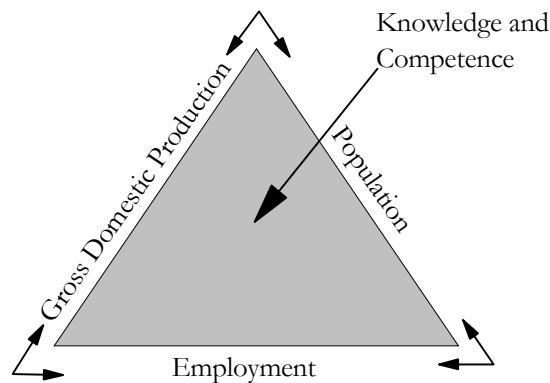
Changes in the Finnish industrial and settlement structure were extremely quick and profound in the 1960s and early 1970s. Finnish society had been strongly primary production-oriented until the 1960s. The most rapid period of industrialisation took place in the 1960s and 1970s. As a result, the urbanisation of Finnish society was an extremely rapid phenomenon and this strong restructuring period has been referred to as the Great Move. Division – and counter setting – between the developed Southern Finland and less-developed regions in Northern and Eastern Finland became more explicit. This, in turn, led to the formulation of explicit regional policy incentives.

Firstly, investments in less-favoured regions were supported by the Regional Development Acts. Secondly, labour policy measures focused on regions suffering from high unemployment. Thirdly, evolving welfare state institutions supported the growth of regional and local centres of the less-favoured regions. Smaller centres were strengthened by reforms such as municipal elementary school and health care centre systems, whereas medium-sized regional centres were strengthened by new institutes of higher education and through the building of a modern regional administration system. Consequently, regional development after the middle of the 1970s until – and including – the recession years of the early 1990s was relatively balanced. However, the urbanisation process was still rapid within peripheral areas in the 1970s and 1980s.

In the latter half of the 1990s – at the same pace as the recovery of the economy – the domestic migration flows climbed up to the level of the early-1970s, when previous records were made in the annual amount of migrations (Vartiainen, 1999). The regional concentration occurring in the latter half of the 1990s has been one of the leading topics both in recent regional studies (cf. Myrskylä et al., 1999; Okko et al., 2000) and public discussion in Finland. The fear of repetition of a Great Move became more explicit. If it would take place, it would be considered a deathblow to the Finnish countryside and to the less-favoured regions.

The idea of regional equality is imbedded in the Finnish idea of the welfare state (reflected in many polls, e.g. EVA 2001, 50). For these reasons, requirements for a more effective regional policy – and, at the same time, the assurances by the Finnish government of their political will and capability to implement a “new” and efficient regional policy – have been an important part of public Finnish debate in recent years.

In this article we analyse regional development trends especially as a part of the change of the Finnish societal model and urban and regional system. Often regional development trends are analysed from the viewpoint of the one-off variable, such as regional economy or migration. Our aim is to assess the interaction between economic and social development. Our frame of reference is a four-dimensional model. The dimensions of this model are regional economy (GDP), employment, population, and knowledge and competence (Figure 1). Focusing on knowledge and competence reflects a basic principle of the new Finnish societal model, which is an intention to build a knowledge-based society (Science and Technology Policy Council of Finland 1996 and 2000).



**Figure 1.** The interaction between economic and social development

### **The Change in the Urban and Regional System and the Roles of Various Spatial Levels**

In the modern era, the urban and regional system was built so that the national/state level was the most important reference level. The nation state became the basic level for creating and maintaining welfare and it also became

the relevant level of regulation: a welfare state and a national economy. Both in economic development and in political discussion this level was simply referred to as a state. In Finnish, “the state” became a synonym for “society”.

In fact, the Finnish welfare state has been constructed at two levels: as a nation state and at the level of municipalities. Regional policy has been made more effective under the names of national unity (regional equality) and efficiency of the national economy (mobilisation and utilization of resources acquired from the whole nation). In modern Finland a municipality – a local state, not a genuine community – is an essential and established part of the nation-state structures. On the one hand, it has been an arena of public sector service production, and on the other, municipalities themselves have been under the patronage of the state. Concrete measures of this local-central nexus are the local organising of welfare services through the central government subsidies as well as discretionary subsidies to municipalities in economic crisis.

The dream of a protected nation state collapsed in the 1990s also in Finland, even though the economic and political integration decisions predicted changes towards globalisation already in previous decades. However, this transition should not be exaggerated. Although we will speak about the hollowing out of the nation state, the recession of the early 1990s has proved that the core of the welfare state is still sustainable.

The idea of the hollowing out of the nation state as an explicit concept of social sciences was formulated by Bob Jessop. According to Jessop, the nation state still remains politically important, but some state capacities are transferred: first, to a growing number of pan-regional, pluri-national, or international bodies; second, to restructured local or regional levels of governance; and third, some of the state capacities are surpassed by emerging horizontal networks of power which bypass central states and connect localities or regions in several nations (Jessop, 1994). So, the diminishing importance of the nation state is connected, in addition to globalisation, to increased interaction between local and global (or at least multinational) actors, in other words glocalisation (Swyngedouw, 1992).

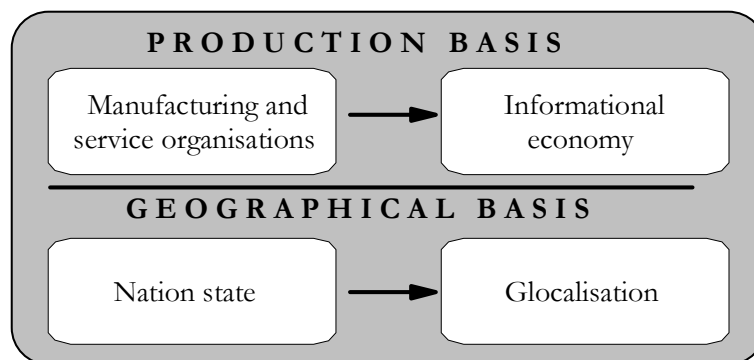
The relatively balanced regional development of the welfare state was based on a strong nation state, whereas at present the responsibility for efficiency, equality and social justice of society is increasingly based on local solutions. Especially in the beginning of the 1990s, localisation was presented in a positive light, underlining the importance of local initiatives and emancipation from the state patronage. Self-reliance and actor-based programme development, as well as the idea of “a Europe of Regions” (cf. Vartiainen and Kokkonen, 1995), became vogue words in the vocabulary of Finnish regional development. The reverse side of this emancipation is the global-local disorder, a concept introduced by Peck and Tickell (1994). This disorder is characterised by “playoffs”

between regions under new conditions and rules of global economy. In this competition there is obviously a number of winners, but also a greater number of losers.

The socio-economic development of regions and localities has so far been strongly determined by national structures and interests. Recently, the success has been based on – or more precisely accredited to, the responsible actors of local key functions – their success in the global division of labour and in their ability to steer development locally. In this sense it is justified to speak about the competitiveness of regions and localities, not only about the competitiveness of nation states. According to Castells:

“Paradoxically, in an increasingly global economy, and with the rise of the supranational state, local governments appear to be at the forefront in managing the new urban contradictions and conflicts (Castells, 1993, 255).”

From the perspective of the industrial structure, the transition from a public sector driven and nationally structured society to a society of glocalised operational environments has meant a transition from industrial and service-based society towards an informational economy (Figure 2). It should be noted that in the rural areas of Finland it was correct to speak of a strong and nationally regulated primary production-based society still until the early-1990s. Thus, regional disparities grew in the 1990s, partly due to the quick adaptation of primary production to the integrated European agricultural policies.



**Figure 2.** Transition towards a glocal informational economy

The term informational economy refers to the importance of knowledge and competence as the basis for developing production (Castells, 1996). For this reason knowledge and competence were presented in Figure 1 as the fourth dimension of socio-economic development. It describes the potential and preconditions for development in the overall circulation of the regional development process. However, knowledge and competence should not be understood only as (high-)technology research and development, as it is often interpreted in Finland, but in a broader sense as social and human capital.

### **The Characteristics of Regional Development in the Late-1990s**

#### *Framework for the Territorial Analysis: Districts*

In the 1970s and 1980s regional development was analysed – and understood – territorially in extensive areal zones, such as Industrial Finland and less-favoured regional areas. The functional units currently engaged are regions (in administrative vocabulary; NUTS-3 in statistical analysis), districts (NUTS-4) and municipalities (NUTS-5). Consequent to the growing intra-regional variation, the current characteristics of the development are more mosaic by nature (cf. Illeris, 1992). Geographical information system analysis has enabled even more detailed analyses, which, however, are characterised by patchwork-quilt-like results (e.g. Rusanen et al., 2001).

The choice of the territorial level utilised in analysis is a critical point when interpreting regional development trends. In an era of mosaic and differentiated regional development, it is often the case that two near-by areas might have different characteristics of development. However, this difference is hidden behind the average, if regional analysis is extended to cover these two regions that are moving in opposite directions. In Finland the development paths within NUTS-3 regions have in many cases significant differences. On the other hand, municipalities (NUTS-5) – which in Finland are often very small by population and by land area – are units too small for territorial analysis, because this level reflects more internal than inter-regional processes. As a result, functional urban regions have gained positions as nodes of regional and societal systems in Finland.

Instead of individual municipalities, the most relevant level of spatial analysis is based on districts (NUTS-4) – i.e. on agglomerations of municipalities – which are the best proxy also for functional (urban) regions, or more specifi-

cally, travel-to-work-areas and daily operational environments (daily urban systems) for businesses, as well as for public and private organisations.<sup>1</sup>

In terms of nationally balanced regional development from the mid-1970s to the end of the 1980s, the most important feature in settlement structure was the growth of functionally diversified and medium-sized urban regions (Vartiainen, 1995). In Finnish this development has been called “seutuistuminen”, i.e. regionalisation (Antikainen and Vartiainen, 2002). Intra-regionally the main feature of regionalisation was decentralisation. Thus, migration and population growth were directed to fringe areas, although economic activities and the creation of jobs were concentrated on core cities. The decentralisation of the community structure, however, has been local by nature and it would be an exaggeration to refer to this trend as counter-urbanisation (Vartiainen, 1989).

Instead of categorising communities as urban and rural areas, the relevant features of the regionalised settlement and community structure currently are, on one hand, the interaction between the dynamic growth centres of urban regions and surrounding rural areas, and on the other, the division between functional urban regions and peripheral rural areas.

More recently, i.e. after the recession years (1994 onwards), migration and economic growth has been concentrated on core cities, and this trend can be labelled as (re)urbanisation. However, during the economic recovery (and in the boom in last years of the 1990s) fringe areas have, again, attracted more population. In the regional transition of the latter half of the 1990s there has been also a growing tendency that differences between Southern Finland when compared to Northern and Eastern Finland are increasing again due to the fact that the development of the urban regions located in the periphery was lagging behind the development of growth regions located mainly in Southern Finland.

The typology of districts (Table 1, p. 70) utilised in the empirical part of this article is based on the Urban Network Study 2001 (Antikainen, 2001a, 67;

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<sup>1</sup> Although in urbanised society it is relevant to analyse a regional system from the viewpoint of an urban system, it is also relevant in the Finnish context to emphasise the existence of large, sparsely populated rural areas and small urban centres. Differentiation of rural areas becomes more clearly visible in district-level analysis, although it is not a functional entity in the same sense as it is in urban regions. District-level analysis is especially less adaptable in South and Central Ostrobothnia, where municipal differences in regional development in rural areas are most distinguished: there may be municipalities that have very strong economic growth but also municipalities in crisis within the same district.



in English see Antikainen 2001c).<sup>1</sup> Basic information about districts, as well as an identification map, is presented in Map 1 and in Table 2. The districts are divided into five main groups (A–E), and within the main groups (A–C) further subgroups are formed. The main group A is divided into the Helsinki urban region (Aa) and the adjacent near-by regions (Ab), whose characteristics and preconditions for development actually reflect the development of the Helsinki region.

The main group B (diversified university regions), are divided into technology regions (Ba), i.e. districts that profiled as high-technology centres in the 1990s, and other diversified university regions (Bb). In this group the urban regions of Kuopio and Joensuu, located in Eastern Finland, are still quite strongly public sector-oriented districts.

The main group C (regional centres) is divided into four subgroups. First are medium-sized industrial regions (Ca) and second are diversified urban regions (Cb). Group Cb includes two traditionally industrialised districts from South-western Finland (Kotka and Lappeenranta), which, due to transition in production structure, have become diversified urban regions in the 1990s; the other three districts in this subgroup are administrative regional centres.

The third subgroup is the public sector-oriented urban regions (Cc), both of which are regional centres in Northern Finland. Furthermore, Rovaniemi has a university of its own. The fourth group consists of special cases (Cd), which refers to the cases that have no counter part in the Finnish urban system. This subgroup is further divided into two: growth regions and two more peripheral special cases. The industrial structures of districts in subgroup Cda are close to those of Aa and Ba, but Cda districts are remarkably more one-sided. The fourth main group (D) consists of small and (relatively) one-sided industrial centres. The main group E consists of districts that are other than functionally significant urban regions. In the end of 1999, of all 85 districts in Finland, 48 belonged to this category.

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<sup>1</sup> Urban Network Study 2001 is methodologically based on the Urban Network Study 1998 (see Antikainen and Vartiainen 1999). The results of the Urban Network Study 2001 are presented briefly in Antikainen 2001c.

**Table 1.** Typology of districts

<i>TYPOLGY</i>	<i>CLASSIFICATION</i>	<i>URBAN REGIONS</i>
A. Helsinki region & near-by regions	Aa. Helsinki region	Helsinki
	Ab. Near-by regions	Lohja Riihimäki Porvoo
B. Diversified university regions	Ba. Technology regions	Tampere Turku Oulu Jyväskylä
	Bb. smaller diversified regions	Kuopio Vaasa Joensuu
C. Regional centres	Ca. Industrial	Lahti Pori Kouvola
	Cb. Diversified	Kotka Lappeenranta Hämeenlinna Mikkeli Seinäjoki
	Cc. Public sector based regions	Rovaniemi Kajaani
	Cd. Special cases	Cda. Growth regions Maarianhamina Salo Cdb. others Savonlinna Iisalmi
D. Industrial centres		Rauma Kemi-Tornio Kokkola Imatra Jämsä Pietarsaari Varkaus Raahе Valkeakoski Äänekoski Uusikaupunki Tammisaari
E. Other than functionally significant urban regions		48 districts

*Economic and Social Development at the District Level*

In the following we take a look at the regional development of districts in the latter half of the 1990s, utilising the four-dimensional model (presented in Figure 1). Measured variables for population are the amount of population, net migration and natural increase/decrease. Measured variables in employment are the number of jobs, the level of unemployment and the change in unemployment. The measured variables in the field of regional economy are the level of gross domestic production and change in regional GDP. Knowledge and competence are measured by the level of education and the migration of people with degrees in higher education. The empirical material is based on data produced by Statistics Finland and the Ministry of Labour. Analysis is based on the typology presented in Table 1 (p. 73). The results of the analysis are presented in Table 2.

One fourth of the total population lives in the main group A, one fifth in each of the main groups B, C and E, and one tenth in the small industrial districts. In terms of population change, the most positive trend has occurred in the main groups A (especially Aa) and B (especially Ba) and in the subgroup Cda. In terms of migration, it is the same groups (A, B and Cda) that have the most positive net migration. Net migration is significantly negative in the main groups C, D and E. Increase – although moderate – compensates for the negative net migration in groups C (with the exception of Cdb) and D. In the main group E natural change has turned from increase to decrease in the middle of the 1990s, and, as a result, these districts suffer both from negative migration balance and from natural decrease.

In terms of the number of jobs, the position of the Helsinki region is even more central than in terms of population. One third of the jobs in the country are located in districts belonging to the main group A. In groups B, C and D the share of jobs at the national level is the same as the share of the population. In group E the share of jobs at the national level is smaller than the share of the population. In other words, the local labour markets of these districts are (often) not self-sufficient. It should be pointed out, however, that the number of jobs has increased in all the groups. The most positive change has occurred in groups A and B and in subgroup Cda. Analysis of the data suggests that (if the change in the number of jobs is compared to the net migration figures) the dividing line between “winners” and “losers” goes in the job growth rate of 10 per cent. Those districts where growth has been less than 10 per cent, have suffered from negative net migration balance. In other words, the dividing line in the 1990s went between booming regions and districts of moderate growth.

Unemployment rates were extremely high in 1994. Due to the high starting level, unemployment rates have dropped rather significantly: from 4.6 to 8.5 percentage units (in the subgroups) in five years. However, only districts in groups A and Cda have an unemployment rate of under 10 per cent. Unemployment rates are relatively high in group B. Employment growth in these regions has been based on the growth of the electronics industry after 1994. The emerging knowledge-based industries do not usually provide viable employment opportunities for the often elderly local labour force (Antikainen and Vartiainen, 2002). In groups C and D, in industrial and public sector-oriented regions, the drop in the unemployment rate has been moderate and the level of unemployment has remained high (e.g. Cc).

Economic growth has been even more centralised than population and labour markets. Districts in the main group A contribute more than one third to the national value added. In comparison, the contribution of group E to the national economy is smaller than the share of jobs. In groups B, C and D the share of the economy is approximately the same as the number of jobs at the national level. Regional GDP figures are low in the public sector districts, in group E and in the near-by regions of Helsinki, where overall growth reflects, at least partly, the development of the Helsinki region.

Also, the regional GDP figures have grown in all district types. In 1994–1999, the growth in the regional GDP in traditional – i.e. forestry, steel and machinery – industrial districts has been around 25 per cent on average, whereas growth in electronic industrial districts has been around 50 per cent on average. In the urban region of Salo (where the main production plants of Nokia are located) regional GDP figures have more than doubled during the same period.

Knowledge and competence are measured by the level of education and net migration of people with higher education. However, the structure of the higher education system and also statistics have changed in the latter half of the 1990s so that the figures from the middle of the 1990s are not comparable to figures at the end of the 1990s.<sup>1</sup> The education level of the population naturally reflects the distribution of higher education institutions. The highest values are in the university regions (Aa, B, Cc) and also in the “near-by regions” (Ab). The lowest values are in the industrial districts (Ca, D) and in group E.

In terms of net migration of people with degrees in higher education, the dividing line is between the large growth regions and smaller university regions that often are “springboards” for people 18–29 years of age (see Antikainen, 2001b). The districts in subgroup Bb are such typical springboards and nodes

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<sup>1</sup> The main change has been the construction of new polytechnic institutes in the 1990s.

Table 2. Characteristics of development of Finnish districts in the latter half of the 1990s

Group /sub-group	Population in the end of 1999	Population change 1994-99 (%)	Domestic net migration 1994-99 (sum)	Net migration balance 1994-1999 (%)	Natural increase or decrease 1994-99 (sum)	Increase or decrease (%)	Jobs 1999	Change in the amount of jobs 1994-99 (%)	Unemployment rate 1994	Unemployment rate 1999	Change in unemployment rate, percent units 1994-99	Regional GDP per capita 1999	Change in regional GDP 1994-99 (%)	Share of population (15+ years) with higher education 1999	Domestic net migration of people with higher education degree 1998 and 1999 (sum)
A	1 355 072	7,7	61 193	4,9	41 520	3,2	682 112	22,3	17,1	9,2	7,9	167 326	41,5	30,4	7606
B	1 169 120	6,1	40 932	3,7	29 281	2,6	505 623	18,4	21	14,7	6,3	119 417	35	26	380
C	1 072 384	-0,7	-12 104	-1,1	4 114	0,4	424 941	8,4	22,1	16,3	5,9	109 243	31,1	20,3	-1793
D	518 218	-3,1	-20 347	-3,8	3 512	0,7	198 906	5,6	21,2	15,9	5,3	110 641	23,7	18,4	-1964
E	1 056 508	-5,6	-50 900	-4,6	-9 557	-0,9	358 343	1,9	22,1	16,2	6	79 272	24,1	14,9	-4229
Aa	1 171 542	8,4	58 319	5,4	38 547	3,4	614 937	23,1	16,9	9,1	7,8	178 656	43,8	31,7	6432
Ab	183 530	3,3	2 874	1,6	2 973	1,6	67 175	14,9	18,3	9,8	8,5	95 110	15,9	22,2	1174
Ba	881 360	7,2	40 091	4,9	23 229	2,7	385 684	20,2	21,2	14,5	6,7	122 516	37,4	26,3	1505
Bb	287 760	2,5	841	0,3	6 052	2,1	119 939	13	20,5	15,2	5,3	109 972	27,2	25	-1125
Ca	383 487	-1,1	-5 865	-1,5	1 198	0,3	152 004	9,1	23,5	17,1	6,4	104 774	25,3	19,7	-461
Cb	374 087	0,2	-429	-0,1	830	0,2	149 289	8,3	21,3	15,6	5,6	106 969	23,3	21,5	-361
Cc	119 654	-0,4	-3 530	-2,9	2 918	2,4	43 728	5,3	24,9	20,3	4,6	92 387	21	22,6	-695
Cda	85 339	2,9	2 289	2,8	1 099	0,1	42 206	16,7	13,3	7,4	5,9	198 352	97,9	19,7	263

in migration flows: these centres attract young people seeking higher education from their own province. After finishing their studies and when it is time to enter the labour markets (but also due to family reasons), they may seek opportunities from larger urban areas that are offering larger labour markets. Also, groups C (with the exception of Cda), D and E are suffering from a negative migration balance of people with higher education.

#### *Multi-dimensional Picture of Regional Development*

Correlation between the changes in migration, regional economy and labour markets has traditionally been considered relatively strong, almost causal. In other words, it has been interpreted that positive economic growth leads to the creation of new jobs and to lower unemployment, which in turn leads to a positive net migration balance. This has also been the logic behind the traditional regional growth ideology adopted in regional policies.

However, the principles of growth in urban regions have changed during the recession and in the recovery from the recession period. Correlation between the above-mentioned three dimensions did not follow familiar “growth logic”. Economically strong manufacturing districts have suffered both from massive unemployment and/or out-migration. This can be interpreted as confirming that transition of development logic was taking place. On the one hand, economic growth was a result of “creative destruction” – production became more effective. On the other, this relates to the spatial structure of multinational and multi-regional corporations of the 1990s. In a multi-regional system economic growth of production plants does not necessarily spread benefits locally. Furthermore, industrial centres have limited labour markets for people with higher education.

Correspondingly, a positive net migration balance is not necessarily a result of positive development in the labour markets, but the recent imbalance in interregional migration is based on the high mobility of non-employed persons (such as students and job-seekers). On the other hand, unemployment has remained high in many growth centres, since the growth in the 1990s has been knowledge-based and those who lost their jobs during the years of recession do not have the competence needed to enter these labour markets. Furthermore, the labour careers of people in the growth centres are often characterised by the number of short-term periods of unemployment, which can be referred to as friction unemployment.

The number of “winners” in regional development in Finland is small. In various researches the top of the list is Salo, Helsinki, Oulu and Tampere and often also Turku and Jyväskylä (e.g. Myrskylä et al., 1999, Huovari et al., 2001).

A common feature of all these (relative) “winners” is a good position in an internationalising economy, which is based on knowledge and competence in high technology. In Table 1 these districts can be found in subgroups Aa, Ba and Cda.<sup>1</sup>

If regional development followed the traditional development logic presented above, there would be districts mainly in the top left corner, in the middle square and in the bottom right corner in Table 3. However, districts can be found in 21 different categories. In general terms, urban regions (in bold-type in Table 3) are better off than other regions, half of which are situated in the weakest category.

Even the group of growth centres is not a homogenous group, although all are centres of electronics industries (with the exception of Turku) and large university regions (with the exception of Salo). In media and in public debate the focus on regional development trends is often only in net migration balance: a growth centre is used as a synonym for (or at least connotes) a region having a positive net migration balance. Of all growth centres only the Helsinki and Salo regions are growth centres in all dimensions. Nevertheless, the profiles of these regions have distinctive differences. The Salo region has stronger relative growth than Helsinki in terms of regional economy and employment, but not in terms of population.

Lohja and Porvoo, which are districts of a positive net migration balance, are closely linked to the Helsinki region. However, their economic growth has been low. Modest growth in the production value reflects to some extent their dependency on the labour markets of the Helsinki region. In other districts with a positive net migration balance the unemployment rate is close to or above the national average. Structural, and often long-term, unemployment caused by the recession has not disappeared from urban regions. Furthermore, in some technology centres the level of the regional GDP is below the average of all districts.

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<sup>1</sup> Maarianhamina (Cda) is the regional centre for the Autonomous Åland Islands. It is a special case and often left out of national analyses.

**Table 3.** Characteristics of the development of districts in the 1990s: cross-section analysis in 1999**HIGH GDP PER CAPITA**

	Low Unemployment	Average Unemployment	High Unemployment
Positive Net Migration	<b>Helsinki<sup>1</sup></b> <b>Salo</b>	<b>Oulu</b>	
Balanced Net Migration	<b>Maarianhamina</b>		<b>Äänekoski</b>
Negative Net Migration			<b>Jämsä</b>

**AVERAGE GDP PER CAPITA**

	Low Unemployment	Average Unemployment	High Unemployment
Positive Net Migration		<b>Tampere</b> <b>Turku</b>	
Balanced Net Migration	<b>Vaasa</b>	<b>Seinäjoki</b>	<b>Kouvola</b> <b>Lappeeranta</b>
Negative Net Migration	Sydösterbottens kust-region	Koillis-Pirkanmaa	<b>Rauma</b> <b>Imatra</b> <b>Kemi-Tornio</b>

**LOW GDP PER CAPITA**

	Low Unemployment	Average Unemployment	High Unemployment
Positive Net Migration	<b>Porvoo</b> <b>Lohja</b>	<b>Hämeenlinna</b>	<b>Jyväskylä</b>
Balanced Net Migration	<b>Tammisaari</b> Lovisa Åboland-Turunmaa Kaakkois-Satakunta Loimaa Kaakkois-Pirkanmaa Härmänmaa Kyrönmaa Föglö	<b>Riihimäki</b> Luoteis-Pirkanmaa Lounais-Pirkanmaa Savitaipale Ylivieska Lakeus	<b>Lahti</b> <b>Valkeakoski</b> <b>Kotka-Hamina</b> <b>Kuopio</b> <b>Pori</b> <b>Mikkeli</b> <b>Joensuu</b> Itä-Pirkanmaa Kärkikunnat Juva Keuruu



Negative Net Migration	<b>Jakobstads-regionen</b> Kaustinen	Joroinen Forssa Kuusiokunnat Uusikaupunki Eteläiset Seinänaapurit Järviseuu	<b>Pohjois-Satakunta</b> <b>Pohjois-Pirkanmaa</b> Heinola Kaakkoinen Keski-Suomi <b>Savonlinna</b> <b>Varkaus</b> Pieksämäki Iisalmi Koillis-Savo Sisä-Savo Outokumpu Ilomantsi Keski-Karjala Pielisen Karjala Saarijärvi Viitasaari Suupohja <b>Kokkola</b> Ii <b>Raah</b> Siikalatva Nivala-Haapajärvi Koillismaa Kehys-Kainuu <b>Kajaani</b> <b>Rovaniemi</b> Torniolaakso Koillis-Lappi Tunturi-Lappi Pohjois-Lappi
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Thresholds	National Value	High	Average	Low
Gdp Per Capita	120 652	> 10%; > 132 717	10% ... -10% 132 718 – 108 586	< -10%; < 108 585
Unemployment	14,5%	< 10% < 13,0 %	10% ... -10% 13,1 – 15,8 %	> -10% > 15,9 %
Net Migration	(0,6‰, not used)	≥ 5‰	4.99 ‰– -4.99‰	≤ -5‰

<sup>1</sup> Functional urban regions bolded

Hämeenlinna (subgroup Cb) is located on the growth corridor reaching from Helsinki to Tampere (the travel-to-work-areas of Helsinki and Tampere reach the outskirts of the Hämeenlinna region). The “success” of Hämeenlinna is partly explained by the optimal location between these two growth poles and good accessibility to their labour markets. Jyväskylä is in a way another extreme. The Jyväskylä region has high unemployment and relatively low GDP per capita figures. This indicates – in addition to structural unemployment – the relatively important contribution of students to population development. Student migration flows also affect the population structure and labour markets of other university regions.

The internal development of growth regions might also be conflicting, and in Finland the specific urban problems caused by increased centralisation have come to the fore. Although the standard of living has risen more rapidly in urban regions than in other regions, there are indications of the increasing gravity of psychosocial problems (Kainulainen et al., 2001). It has also been predicted that development is striving towards a “dual city”. This concept was previously familiar only from international debate as well as from early urban history (in the case of Helsinki, see classic Waris, 1973), and refers to the polar-

isation between the rich and poor within an urban region (cf. Kortteinen and Vaattovaara, 2000).

The number of “losers” in regional development (i.e. regions that belong to the lowest category in every measured dimension) is rising in Finland. Most of these regions are other than functionally significant urban regions and located in Northern or Eastern Finland or in Suomenselkä (a watershed zone between bigger centres in western Finland). New districts in this weakest category are regional centres of the peripheral areas that grew strongly in earlier decades. In addition to out-migration from rural areas and de-industrialisation,<sup>1</sup> which still affect industrial centres, the structural transition in public service-based districts has characterised regional development in the latter half of the 1990s.

### **Regional Development Trends Since the 1990s**

One framework that can be used in the interpretation of development dynamics is to view the lifecycle of products or production processes as well as the technological advances conditioning these changes in general. In this model the lifecycle of a product consists of the following distinguishable phases: i) the innovation of the product, ii) strong growth, iii) large-scale mass production, which will stabilise to stagnation, and iv) the disappearance of the product from market. Another important framework for interpreting development dynamics is the development stages theory of growth (Hewings 1977), where different stages are distinguished from one another on the basis of their industrial structure, i.e. primary production, industrial economy, service production and informational economy.

We now unite these two frameworks in order to explain the current development logic presented in Fig. 1. Simultaneously, we emphasize the overlapping nature of the different stages (instead of the different stages following each other) as presented by Massey (1984) in the spatial divisions of labour model. The causal development logic is most apparent in the growth stage (stage ii) and more precisely in the end of this stage. At this point, the new

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<sup>1</sup> Deindustrialisation, i.e. the gradual discharging symbiosis between industrialisation and urbanisation, forced one-sided urban regions into decline from the mid-1970s, with the strongest deindustrialisation taking place in the early 1980s. Decline was sharpest in traditional industrial centres, but small-scale reindustrialisation took place in many localities outside Industrial Finland. This reindustrialisation, in part, supported the growth of service centres located in peripheral areas until the recession in the 1990s.

stage has gained critical mass and is about to enter the stage of “mass-production” while the previous stage is in stagnation or in decline.

Seen from the perspective of the development stage, in the 1950s and 1960s growth was strongest in traditional industries (especially metal and forestry). In the 1970s and 1980s the public sector grew rapidly. And in the 1990s, once again the industries (ICT-industry) grew. During initial industrialisation the employment impact of industrial production was significant. This raised the values of regional production to a new level. The development logic followed a positive self-feeding circle. On the other hand, the theories of (regional) economic growth and statistical tools were developed in order to explain and to measure the development of industrial production.

In Finland the expansion of the welfare state was strongest in the 1970s and 1980s. In this time period the most rapid growth in terms of employment was in the public sector. Building the welfare state created new jobs and led to more balanced regional development, but its contribution to the regional economy was weaker than, for example, that of industrialisation. Although the level or the absolute amount of growth was not remarkable, it was nevertheless a period of economic growth. The logic was comprehensible again: employment increased, migration was directed to the regions where new jobs were created and regional economies became stronger.

In terms of the logic of regional development, the characteristics of development in the mid-1990s were exceptionally illogical. At a time when the production values of traditional industry were high, people were moving to regions where the electronics industry was growing rapidly and where there were many attractions for young people. The growth of the electronics industry was at its peak in the end of the 1990s, and the socio-economic development logic was more clear-cut during the last years of the decade. In the last years of the 1990s, the production and export values of the electronics industry were notably higher than those of forestry and metal industries. Districts that specialised in the electronics industry have high regional GDP figures, an increasing number of jobs, and a positive net migration balance (cf. also Halvari et al., 2001).

At the time of writing this article, the electronics industry is in somewhat of a stagnation stage and the logic of development is, again, ambiguous. Speculations about the future growth sectors vary greatly. In the first decade of 2000, growth might be based more on the private sector services, which will be developed into products and jobs. This might include wellness-services (both physical and mental) and the service production of leisure-time activities. On the other hand, the generation change in the public sector will open these labour markets to a young educated labour force. This development is supported by the active measures taken by the government (the so-called “streamlining” of the public sector) and by making the public sector more competitive in terms

of salary. The Industry View by the Helsinki Chamber of Commerce (Helsingin Kauppakamarin toimialakatsaus; 3/2001) hints at this new growth: according to this periodical, the public sector and welfare services were the most rapidly growing sectors in the Helsinki region.

The idea of the hollowing out of the nation state gains some empirical support in the Finnish context. A prosperous district or locality cannot be only a national, provincial or regional service or administrative centre and part of a network of national central places. On the contrary, it is essential to actively network both internationally and locally. In fact, this applies also to the Helsinki region. It should operate competitively in global, or at least in European, urban networks. In reality, the Helsinki region is still largely the cornerstone of the national urban network. The Helsinki region has historical layers of power-holding institutions and the competence related to them. However, the future based on these institutions is uncertain. Rationalisation of central administration and large corporations as well as globalisation might push the capital region and national centres into decline as it did the regional centres in the 1990s.

In the post-modern era, glocalisation implements interregional and often global flows rather than closed territories such as that of a nation-state, province or municipality (Castells, 1993; 1996). Global flows, however, are in principle anchored to local socio-cultural practices. Thus, in the location decision-making processes of multinational corporations, focus is more often on local operational environments in addition to the national context. The success of regional development efforts is measured by opportunities and competence to cooperate with the private sector (production units), institutions of knowledge and competence, as well as with the public sector (public-private partnerships) both within districts and between districts. Berg et al. (1997) refers to this phenomenon as the organising capacity of urban regions. The critical components of regional competitiveness are actor-based features such as administrative competence, strategic networks, management skills of central organisations and their key persons, as well as wide social and political support.

In Finland a critical component in socio-economic development is the competence of urban regions to network simultaneously both locally and internationally. The successful centres of urban life are more and more often located in nodes of interregional flows. Dimensions of a successful district may encompass some, though not necessarily all, of the following:

1. STRONG SPECIALISATION
2. GOOD ACCESSIBILITY
3. CONCENTRATION OF KNOWLEDGE AND COMPETENCE
4. CREATIVE MILIEU AND SOCIAL AND HUMAN CAPITAL
5. AN ENVIRONMENT ENABLING A GOOD QUALITY OF LIFE

In the end of the 1990s it was possible to label prosperous districts simply as Nokia-districts, where interpretation was concentrated on one growth industry and actually on one corporation. Currently, the interpretation of regional development and also regional development measures are focusing on changes in industrial structure (the so-called long waves or economic trend development). From this perspective, the global informational economy prefers diversified metropolitan districts with sufficient “critical mass”. The locomotives of regional development are diversified (1) concentrations of research and production services, (2) concentrations of information intensive industries; and (3) concentrations of design intensive craftsmanship. These concentrations are often interpreted as being found only in larger urban regions; in the Finnish context perhaps in five to ten of the largest centres. This interpretation is often connected to the surveys where location preferences of young people were mapped: young people prefer growth centres as potential future locations for themselves. As a result, national regional policy is often seen as “regional artificial respiration” (see the headline in the national newspaper, Helsingin Sanomat, 6 August 2001).

Historically, it has been assumed that growth based on one industry cannot continue forever. Therefore, it cannot be expected that all growth centres will automatically prosper in future.

The dualised development in metropolitan areas is also becoming more explicit. The development of Finland and its growth centres has been based on a few strengths, which are concentrated on a few urban regions. The short-term development of growth centres is highly dependent on the development of ICT technology, the electronics industry, and knowledge and competence services. Bottlenecks in this development can be, on one hand, the (global) decline of the existing growth sector, and on the other, (locally) the qualitative features of the environment and costs of the labour force.

In a broader perspective (than that of information technology), knowledge and competence has become the most relevant factors of production in all industries. Thus, prosperous regions can be considered primarily as multi-fac-

eted concentrations of knowledge and competence, where an interaction system of information intensive institutions (such as universities, science parks, and R&D units of corporations) plays a central role. This system is in literature referred to as a “network”, “cluster”, “creative milieu” or “learning region” (see e.g. Wills, 1999). As a matter of fact, knowledge and competence is a complex process of interaction and learning instead of being part of a linear innovation model emphasising the role of high technology and concentrations of technology (cf. Massey et al., 1992). From this perspective, the criteria for success in the future are more multidimensional with socio-cultural factors becoming more directly connected to the conditions for the location decision-making process of the population and businesses. In addition to its innovation system, the strengths of the Finnish information society are its wider basic social structures (cf. Castells and Himanen, 2001).

On the basis of international comparisons it can be asserted that the functions of an informational economy require certain functional concentration, but the spatial mode of this concentration is an open concept. In search of new “winners” in regional policy the focus has been on the districts between the two extremes, i.e. growth centres (groups A and Ba) and declining rural areas (peripheral districts in group E). That is, focus is on small and medium-sized urban regions and on districts near larger urban areas (the so-called rural heartland area) in Southern Finland. Instead of natural resources, the strengths of medium- and small-sized urban regions and districts in rural heartland areas are linked to their good living environments and social capital. The future of regional equality – which is emphasised in the Finnish societal model – will be measured in these intermediate districts.

It is much more challenging to predict a new strong factor of competitiveness for declining peripheral rural areas. However, the peak of the structural transition of agriculture should now have been passed, and also the number of people at active migration age has diminished due to changes in the population structure, which, in turn, should lead to a less negative net migration balance. Although a number of small success stories can be identified behind the population decline in peripheral areas, the findings of Kainulainen et al. (2001) suggest that the sparsely populated countryside is forming an area of multiple problems, where a low standard of living is connected to the increasing gravity of psychosocial problems.

The vision of a knowledge-and-competence-based Finland should be, in our opinion, instead of an increasing concentration, an increasing specialisation. The Oulu case is often mentioned as the best practice when referring to knowledge-and-competence-based growth. However, the “Oulu-model” is not applicable to all districts of higher knowledge and competence. Finland needs more diversified electronics and ICT industries, as well as new growth industries.

Knowledge and competence for these future growth sectors can also be found elsewhere than in the present growth centres. Successful investments and the strengthening of regional centres will also strengthen the national economy.

### **Conclusion**

From a geographical perspective, we are able to examine some recent paradoxes of Finnish society. From this angle we can illustrate how even significant economic growth does not necessarily lead to a quick reduction in unemployment. This concerns both the traditional manufacturing regions and the regions where service and primary production decreased heavily in the restructuring phase of the 1990s. In fact, we can find also in growth regions a continued problem of long-term unemployment. Seen from the perspective of glocalisation, the prevalent Finnish public policy is based still, in spite of some recent renewals in regional policy, on the idea of an efficient national economy and/or placeless markets (i.e. globalisation in a market-liberalistic form). In this way, public policy gives support, although not deliberately, to the few current growth regions. At the same time, the extent of the regional policy has been limited, comprising mainly the structural fund policies of the EU.

The national approach to the employment policy is based on national and regional averages and does not fully recognize the local characteristics of unemployed persons. In the urban regions a regionalised policy should be targeted more towards the problems of the middle-aged and elderly people, for instance. The typical way of subsidizing short-term jobs in public sector is not a sustainable strategy for them, it rather postpones the problems of long-term unemployed persons.

On the other hand, the main vernacular indicator of urban growth, i.e. population growth, is not a simple manifestation of positive development. A quick population growth might rather increase imbalance and pressure in local labour and housing markets as well as in public service production. The same is valid in policy formulation: a proper aim for many cities could be a balanced net migration rather than a large population gain. On the other hand, not all Finnish cities are able to reach for growth in IT-industries and high technology production. So the basis for local industrial and employment policies should be identification and improvement of the natural strengths and opportunities of each locality and region.

This kind of a regionalised public policy creates an alternative to the narrow regional policy, which is based on a doctrine of the national growth policy. According to Amin (1999), this kind of “very new” regional policy is based on an institutionalist perspective of regional development policy. It is based on

collective actor-networks of public, semi-public and private actors, but an essential part of the institutionalised policy is also sustained macroeconomic support for the basic infrastructure of communities and the local informational economy. From a multi-scale perspective, the main impetus for this policy might come from locally based actors, but it entails simultaneous actions at supra-local levels (Vartiainen, 2001). Certainly, there are some recent evolving forms of this kind of “very new” regional policy reflecting different types of regions and multi-scale actions. Examples of this are the recently launched national Regional Centre Development Programme and the pilot programme for co-operation at the district level (SEUTU-hanke).

Up till now, the effective income transfer mechanisms have kept the actual socio-spatial income differences rather small in Finland, in particular in the case of disposable incomes. This is true even though Finnish society has repeatedly undergone deep economic restructuring phases with acute differentiation in regional growth and employment. The strong income transfer mechanisms have been argued for on the basis of their overall benefits at the national level. Some recent studies, however, reveal a slight growth of regional disparities in income (Rusanen et al., 2001; Kainulainen et al., 2001). One reason for this development might be a heavy differentiation in capital incomes, but also the working of transfer mechanisms have been weakened. At the same time, we may see growing differences in public services between different localities.

We may even ask if Finnish society is committed still to secure universal services in all localities which has been an essential part of the Finnish model of the welfare society. In certain fields, such as postal services, this doctrine is already largely abandoned. This course is evident also in welfare services produced mainly by municipalities (Eronen et al., 2000). In this way, we may anticipate growing socio-spatial disparities in Finland both in incomes and public services. Paradoxically, this is occurring at a time when Finland is seen as a laboratory for an equalitarian and locally based information society (Himanen and Castells, 2001).



## 5 Structural Changes and Transitions in the Labour Markets of Finland in the 1990s

*Asko Suikkanen & Ritva Linnakangas & Sirpa Martti and Anne Karjalainen*

### Introduction

This study analyses the 1990s manifestations of the dynamics and insecurity of the labour markets and the significance of these issues to the life course and participation in the labour markets of people belonging to labour force. We assume that the social, economic and cultural systems of interaction formed during the First Modernity are going through a qualitative change. The First Modernity and its institutional structure took shape in the great transformation of postwar Europe and industrial society. In the Second Modernity, the process of modernization is reflexive, and contours of it are unclear. Change is affecting a whole range of aspects in society. For example, globalization changes not only the relations between and beyond nation states, but also the inner quality of the society. The logic of the Second Modernity leads to new forms and images of economy and work, society and politics. (See Beck, 2000.) The ongoing transition from the First to the Second Modernity forms the basis of our research from the perspective of labour markets. The sociological discussion dealing with the issue of the Second Modernity is admittedly unclear currently and researchers are not unanimous of its conceptual underpinnings.

One of the major challenges to the First Modernity was citizenship, its formulation, rights, norms and relation to the principles of the labour market. Yet the western concept of "citizenship" (Marshall, 1950) can be supplemented with that of "labour market citizenship", where the characteristics of social structures are best realized with respect to labour market citizens. These are people who fulfil the conditions of normality as defined by the labour markets. Labour market citizenship has become a socio-economic, historical and judicial continuation to social citizenship, which, however, appears to be more and more defined and conditioned by the labour markets.

Throughout the First Modernity, the labour markets functioned as the centre of the state. Their principles organized society in a variety of ways. The labour markets have been dominated by national regulation, collective actors, practices of normality and a shared sense of general binding. In many countries, the First Modernity was seen as routine standard employment. Participa-

tion in the labour market has been based on certain ideas, principles, models and meanings. Typical collective groundings for participation in the labour market include:

- the construction of a strong professional identity as the cultural meaning and economic basis for participation in the labour markets
- sector and area specific modes of thinking and adaptations of regulations
- supply oriented vocational training aiming at specific skills.

From the perspective of the individual, participation in the labour markets has been a biographical question spanning his/ her whole life course (Kohli, 1985 and 1992; Hinrichs, 1991). The ways of influencing the life of an individual have been based on attempts to achieve a collectively acceptable social order, possibilities for forming the material conditions of welfare and questions related to the battle with the insecurity of life. In their background one can find relatively stable conceptions of the age stage related roles and the meaningfulness of an individual's life. The reproduction of society has not required that the life course of the individual is intervened with repeatedly. The welfare state has not needed to guide the adults' changing work participation in a systematic manner but, in the conditions of the First Modernity the aim has been the high stability of the life course. Structural guidance has emphasised a strong sense of identity and the stability of the institutional life course, not rapidly changing situations and phases in life. Since the standard life course model has been understood to be universal, collective steering has been possible.

Until the 1990s, the welfare state was able to solve many questions of employment, wealth, income and equality in a harmonious manner, both in relation to each other, the functionality of society and the smoothness of the individual's everyday life. Later it has become increasingly clearer that the ways and conditions to achieve social order have changed. The current selection and differentiation in the labour markets undermines former agreement-based possibilities to steer an individual's life course and govern society.

The loss of uniformity, combined with the new ways to structure the relationship between society, its structures and the individual, pose new challenges to prevailing systems of employment. During the 1990s, five different lines of argumentation have emerged in the debate concerning the changes in the labour markets:

- end of work (e.g. Rifkin, 1995)
- transition from work society to information society (e.g. Drucker, 1993; Castells, 2000)
- increasing flexibility in the labour markets (e.g. Felsted and Jewson, 1999; Marin et al., 2000)
- increasing insecurity of work (e.g. Beck, 2000)

- transitional labour markets -vision (Schmid, 1998).

What connects the above visions is an understanding of the changing position of the individual in relation to the ongoing change. According to the individuals' visions of future and social scenarios, we can distinguish between visions of hope and despair. Rifkin and Beck, for instance, claim that the position of the individual is under a great threat. Visions of information society and flexible labour markets are visions of opportunities and hope. Schmid's conception of transitional labour markets is a mediating one that emphasises participation in wage-earning work and changes in the life course.

The starting point for our examination of the labour markets stems from the concepts of transitional labour markets and the life course and the interpretation of different phenomena related to the dynamics of the labour markets. From the individuals' point of view, central factors in working life include factors changing their life course, the relation between paid and non-paid work and the individual's general relationship to the labour markets and ways of acting in the markets. It can be assumed that the Second Modernity starts in qualitative changes concerning the individual's action, role and their meaning when the individual's (and his/ her life course's) relation to the state in particular goes through a change. In the sense that we are witnessing a contemporary escape from the logic of normality, our perspective can be considered as Beckian. It is one of our central tasks in this study to analyse and interpret the degree and change of normality in the labour markets.

In this study we will start the examination of the changes and specificity of the labour markets by describing the developmental trends and analysing the structure of its dynamics. The analysis is based both on traditional statistical indicators used in studying the phenomena of the labour markets and the new instruments that we have developed. Our material consists of longitudinal data from Statistics Finland. In this data individual cohorts represent both generations (sample 10 per cent) and the entire working-age population (sample 5 per cent). Since the data deals primarily with individuals' participation in the labour markets, it describes socio-economic information from the past year concerning the individuals' relation to institutional labour markets. The materials also portray the individual's relation to welfare and social security (income taxes, income transfers, taxation) and the structures of social policy (education, employment policy). Our perspective is that of change and dynamics and is made possible by our longitudinal data allowing the study of the same people. Our data representing the whole working-age population is particularly important in studying the significance and pervasiveness of the changes in the labour markets and also in aiming at a conceptual understanding of the character of the period under study. Indeed, the years 1988–1998 form a unique period in the

Finnish context: they include the pre-recession years of economic turmoil, the years of a serious financial recession and the first five post-recession years.

### Changes in the Structure and Qualifications of Labour

From the perspective of the structure of the labour force the early 1990s was a period of extreme selectiveness. With regard to qualifications and skills, production based on information technology and knowledge-based work (which are about to spread to all professions) require continuous study and application of new knowledge in both production and work. Changing business fields, attempts to study for more than one diploma and continuous self-development and learning are becoming both factors of production and conditions regulating the coping of the labour force. One state-provided education per individual is no longer enough. While this change can be considered as a structural necessity in lifelong learning, it is also a serious challenge since it has been the idea of the welfare state to invest in one professional diploma per citizen. This has been found to be enough and also purposeful from society's perspective; it has also been thought to be right and to increase equality. Indeed, it has been the task of the individual to find and use more resources for gaining extra education because this has been thought to be beyond the idea of the welfare state.

**Table 1.** The educational structure of the employed 1990 and 1997

Educational level	Year 1990				Year 1997			
	Employed labour force		Employed wage earners		Employed labour force		Employed wage earners	
	Persons	%	Persons	%	Persons	%	Persons	%
Comprehensive school	751980	33.9	601140	31.7	461280	23.8	374580	22.2
1–3 years of vocational school	721600	32.5	607620	32.0	611240	31.6	516060	30.6
4 or more years of vocational school	427440	19.3	392760	20.7	448940	23.2	408020	24.2
Polytechnic/ University	319180	14.4	296400	15.6	415840	21.5	390560	23.1
Total	2220200	100.0	1897920	100.0	1937300	100.0	1689220	100.0

In the occupational structure of labour we can trace a change showing that occupations requiring lots of education and skills have become more significant. The number of tasks requiring managerial and expert skills have increased and that of routine-like positions has decreased. In a period of less than ten years the share of scantily-educated people has diminished substantially (Table 1). An individual is not able to maintain a stable position in regard to knowledge and function for a long period unless s/he acquires new skills and updates her old knowledge continuously.

At the same time when qualifications needed in work are increasing the return to work appears to have become more difficult. In this respect the late 1990s in particular appear to be without a comparable period. Those who were pushed aside the labour force during the recession and have re-entered it after 1994 are young adults with an average age of 38 years. Half of them have at least one diploma requiring 4 or more years of vocational school. If a person has no vocational education, the likelihood of remaining outside the labour force is higher. During the recession such drifts away from employment have occurred sometimes in the case of people less than 50 years of age. The case is that in all age and educational levels the 1990s appear to have been a period of decreasing employment. The share of people working without any diploma has decreased especially in younger age groups and in the case of both women and men.

The chances to find a job in the early 1990s was weakest for people with little or no education; yet in the case of the latter group their share of the labour force had started to diminish before the recession years. The only group whose employment has clearly increased after the recession is that of the highly educated, whose current share of the employed wage earners is 23 per cent. For the first time in Finland, the number and share of employed wage earners with mere comprehensive school education is lower than that of people with university / polytechnic education. (Table 2.) From the perspective of the labour markets, a diploma from a vocational school does not provide similar employment opportunities as a university/ polytechnic degree. Now, in the early 2000s, the share of people with university/ polytechnic education and those with 4 or more years of vocational school amounts to more than half of the employed labour force. In future the recruitment criteria of the labour markets appear to favour people with university/ polytechnic education. Similarly the share of people with 1–3 years of vocational school is no longer growing and it is likely that by 2005 more than one half of the labour force will have a diploma requiring 4 or more years of vocational school.

**Table 2.** The development of employment according to educational levels 1988–1997

	Compre- hensive school	1– 3 years of voca- tional school	4 or more years of vocational school	Polytechnic /university	Total
The number of employed wage earners in the year 1988	640080 33.9 %	601640 31.8 %	373820 19.8 %	274020 14.5 %	1889560 100.0 %
Mean age	42.6	35.4	33.8	39.4	38.1
Change of employment, %					
1988–1990	-6.1	1.0	5.1	8.2	0.4
1991–1993	-21.9	-14.5	-9.9	0.7	-13.1
1994–1997	-7.6	5.7	17.0	21.0	7.9
1988–1997	-41.5	-14.2	9.1	42.5	-10.6
The number of employed wage earners in the year 1997	374580 22.2 %	516060 30.6 %	408020 24.2 %	390560 23.1 %	1689220 100.0 %
Mean age	44.7	40.2	36.5	39.7	40.2

The significant change that has occurred in the qualification of the employed is a phenomenon peculiar to the 1990s. The recession appears to have accelerated the development, in addition to having functioned as a collective motivational ground. The social acceptance of the trend is based on the ideology of high education, which has been discussed widely in recent social debates. Its technological basis lies in the increase of the importance of the high tech areas in industry and new information technology in practically all fields. The trend gives a justification and a basis for developing and producing even higher technology and defining it as the basis of the economy. Yet it also forms a new basis for a new structural inequality and urges to solve the social question posed by the scantily educated working-age people. The inclusion phenomena of employment refer to the integration of the highly qualified into the labour markets and the high likelihood of exclusion in the case of the poorly qualified. In the 1990s the number of employed with no vocational education has dropped to one half of its former figure, while that of people with university/polytechnic education has almost doubled. The changes in the focus of qualification and the concentration of the educational system on the intentional expansion of higher qualification have in the 1990s enabled the structural change

of unemployment, a process implemented to a great extent during the recession and that has sped up continuously ever since.

It can be concluded that the poorly qualified working age people are forced to face serious social risks because of rapid changes, increasing requirements and increasing general mobility and that no adequate socio-political investments into improving their relative position by actions more sufficient than the current ones are made. Socially the fact that these people leave the labour force entirely at too early an age is more important than the unemployment of other people of the same age. It can be interpreted that to leave the labour force changes the structural conditions of income distribution, shortens an individual's participation in contributing towards the costs of social security and accelerates the renewal of the labour force. The more selective the early dismissal from the labour force, the more it influences the internal structures and renewal of the labour markets. One can see today that within the individual's life span, the general time a person is active on the labour force has declined and is now ca. 30 years beginning at the age of 25 and ending at the age of 54. The participation of people under and above these ages in the labour force is partial and of selective nature. In the 1990s the average period spent in the labour markets has shortened and may well keep on shortening at least in the case of certain groups because of the rise in the level of qualification, the high number of years spent in education and the increased and more general possibilities to leave the labour force early. Unless the situation is not selected as a target of conscious political action and the educational level of adults increased, the problem will be faced repeatedly in the near future with rapid changes in the constitution of labour. Currently the problem "cures" itself in an invisible manner when people in the best working age end up outside the labour force.

The change of an individual's skills and qualification structure of labour challenges the formerly stable positions in the labour markets. One of the most important visions for the future's employee is his/her ability to devise new solutions. In the future it is crucial for the individual to commit him/herself to continuous learning. However, it is also social policy, not only the individual forced to commit him/herself to continuous education, that faces the changing situation. The changes in the life course and the rapid transitions from work to education, to outside the labour force and back to wage-earning work and so on, mean that the sense of insecurity increases. In the cases of (re-)education, career changes and the mobility of the labour force we are dealing with functional changes, which should be supported with social policy. What is about to be born is a new career model which opens up possibilities to combine work, education and everyday routines in a flexible manner. When education, (re-)education and rehabilitation are offered as active solutions, the development of flexible learning organizations and social innovations should become possi-

ble. However, for this to be possible, and to avoid the social risks stemming from the fact that the contemporary institutions (education, social security, welfare services) do not support individuals who have selected or drifted into these new trajectories, social and political reforms are needed.

Since in the older age groups the educational level of labour is not remarkably different from that of those outside the labour force, and since in finding employment in the open labour markets the losers are those with the poorest qualification. The question can be posed whether specific support should be given to those poorly qualified who are participating in the labour force but, are now about to drift away from it (e.g., those on temporary pensions). In practice this means specific educational resources and rehabilitation targeted at both the employed, the unemployed and those about to drift outside the labour force. Yet attempts to support people's attempts to enter the labour markets, to keep people in the working life as long as possible and to try to help the unemployed to re-enter the labour markets require that a number of different mutually supporting means can be found. In recent years a number of countries, including Sweden and Denmark, have tried systematically to activate their practices so that people with no employment have been hauled into education, work practice or other activity at a relatively early stage. Danish programs have paid special attention to the situation of people in the working life. In Denmark it is possible for a company to hire substitute workers if it chooses to allow its employees to participate in such programs. Schmid (1998) considers Denmark to be an exemplary nation in another sense too: there some companies fund their employees' education. While the individual earns less when at school, the government makes up the difference.

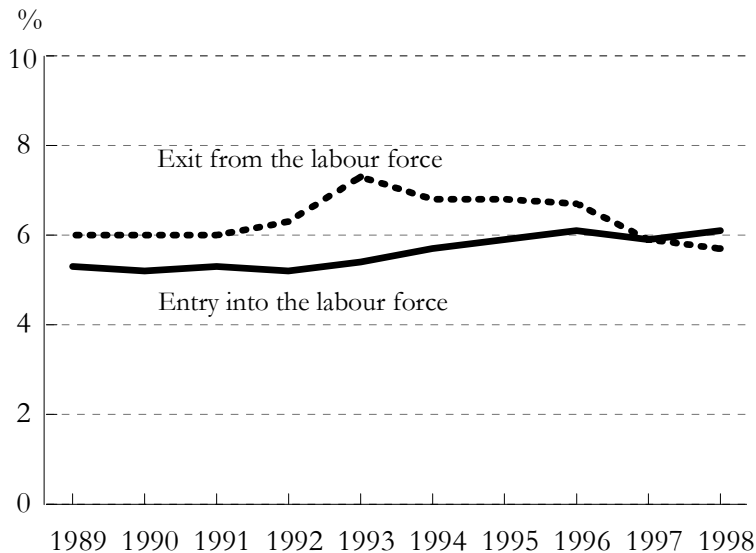
### **The Dynamics of the Labour Markets**

The study of participation in the labour markets means the simultaneous study of the reflections of social, economic, cultural and political phenomena. The study of participation in the labour force requires to study the factors effecting the supply and demand of labour. The supply of the labour force shows the cultural organization of society, including the values related to work, welfare and gender relations, as well as the degree of technology and the division of labour in the particular society. The demand of the labour force, in turn, shows the principles according to which private companies and other economic organizations implement personnel policies and utilize the labour force, and the employees' social responsibilities. But, aim here is to interpret the dynamics and the renewal of the labour market. What is central is to locate the multidimen-



sional processes of entry into and exit from the labour market, to analyse factors related to dynamics and renewal and to discuss their significance.

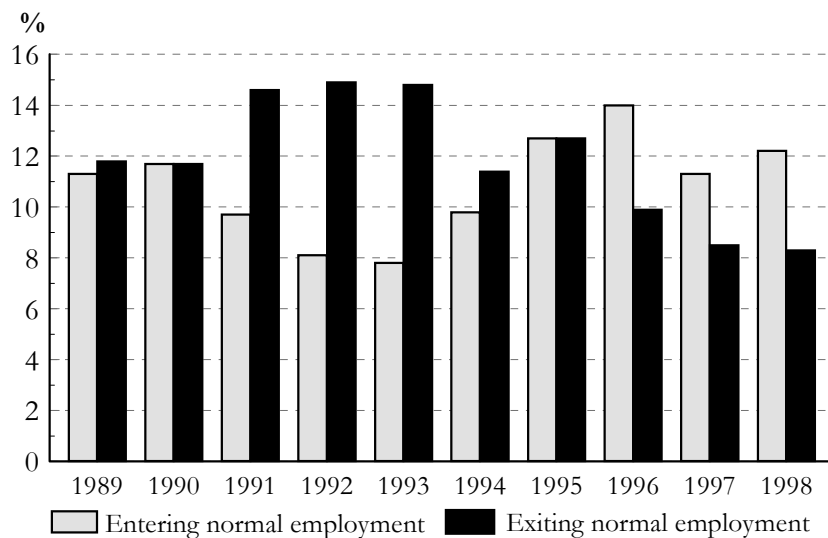
From the late 1980s to 1993, approximately 5 per cent of the labour force consisted of new incomers. During the same period the annual share of people leaving the labour force was approximately 6 per cent. During the recession, exits from the labour force increased significantly. While entering the labour force started to increase after the recession, it was not before 1998 that entry mobility outnumbered exit mobility. (Figure 1.) Together the entry and exit flows reveal that the dynamics of participation in work increased during the recession years.



**Figure 1.** People entering and exiting the labour force and their share of the labour force in 1989–1998

The mid and late 1990s have special characteristics as to transition to the employed labour force. While in the early 1990s more than one half of entries into the employed labour force came from the outside (education, maternity leave, adult education and other traditional routes of renewal), the situation was different in post-recession years. Transition from unemployment to the employed labour force has become more common. The decade also shows that decisive changes have occurred in the exit routes. Whereas in the early 1990s the major exit route led from employment to outside the labour force, the meaning of this route decreases significantly in the late 1990s. The period

1992–1997 shows an increase in transitions from employment to unemployment. The work trajectory consists increasingly of movement from one position to another within the labour force, a movement that combines the partiality of participation in work, unemployment and temporary periods outside the labour market due to different reasons. Inclusion in the employed labour force has become a more central factor in the reproduction of the labour market. While its background is in the social effects of a strong economic recession, as an extensive phenomenon it tells of the long process of leaving unemployment and the increasing role of selection mechanisms.



**Figure 2.** The share of people gaining and leaving normal employment of people in normal employment in 1989–1998

The annual changes of labour who enter and exit from typical employment vary more remarkably than those concerning the entries and exits (Figure 2). This mobility to permanent full-time employment appears to be particularly varying. From the perspective of permanence, the exits from full-time permanent employment were common. By the end of the decade entries into normal employment were more common than exits.

As it comes to occupations and field-specific transitions, the number of transitions is higher in younger age groups. Changing occupations and business fields has earlier been interpreted as a relatively rare occurrence, a so-called major life change, as it was in relatively stable labour markets and in the tradi-

tional employment model. In the 1990s changing occupations and business fields was a recurring process in the lives of under-40-year-old labour market citizens rather than a one-time event. Especially the commonness of changing business fields in the 1990s indicates the permanence and continuing nature of the changes. Such changes do not appear to be associated with shifts in economic trends to the effect that in weakening economic times people change fields more often. On the contrary, an economic boom period seems to increase the probability of changing fields. This is related to both individual-level processes and the structural dynamics of the labour markets. Earlier transitions had been interpreted, and apparently experienced, as social risks; preparation for risks was understood to be one of the principles of social policy. In the younger age groups repeated changing of business fields is normal and the rule – a factor which is a feature of the dynamic labour markets and individual adaptation.

As an example we can take them who have two or more diplomas. Though social policy still supports studying for one diploma, completing more than one (excluding matriculation examination) has become common in younger age cohorts. In our view having two or more diplomas is not only a change related to a culture idealizing higher education, but it can also be interpreted as the individual's independent social process that the "active actor in a risk society" takes up without being absolutely sure of what is going to happen after earning her diploma. About 16 per cent of persons born in the 1940s, 34 per cent of those born in 1958 and 33 per cent of the 1963-born have at least two diplomas. We can expect that by 2010 nearly half of the women born in the late 1960s will have acquired a second qualification and about 40 per cent of the men.

### **The Question of Career Stability**

We have stressed that the difference in interpreting the permanence of employment depends both on the perspective and the data used. What is essential is what the number of normal employment is compared with. For example, in 1998 80.5 per cent of employed wage earners aged 21–64 years were employed full-time for the whole year. The figure for the labour force of the same age was 60.5 per cent; when entrepreneurs were excluded the figure was 67.5 per cent. (Table 3.) If the basis of the numbers is the labour force, the share of the people in normal employment is affected by the variation in unemployment and the number of entrepreneurs; if the basis is the labour force (entrepreneurs excluded) the variation in entrepreneurship is left out but that in unemployment remains, which is justified if the aim is to describe the share of people in

normal employment in that part of the labour force that either seeks to be or is in wage-earning employment.

**Table 3.** The share of people in normal employment calculated with reference to different groups

Year	Persons	Share among employed wage earners	Share among the labour force*	Share among the labour force
1988	1,549,500	82.0	77.3	66.7
1989	1,550,780	80.9	77.0	66.4
1990	1,559,440	82.2	77.0	66.4
1991	1,478,860	83.8	72.6	63.1
1992	1,371,540	83.3	67.3	58.8
1993	1,268,000	82.7	63.1	55.2
1994	1,246,140	79.6	62.3	54.5
1995	1,244,960	78.2	61.7	54.6
1996	1,305,100	80.8	64.2	57.1
1997	1,347,580	79.8	65.6	58.6
1998	1,408,660	80.5	67.5	60.5

\* entrepreneurs excluded.

If we look at the problem in a longitudinal setting and examine inclusion and participation on the labour markets from a perspective spanning several years, an entirely different assessment of the stability of the labour markets and the permanence of employment emerges. Table 4 can be described as a permanence table. In constructing the table, it was assumed all individuals (of working age) have spent the entire study period 1988–1998 in its scope (only the dead and the people who have moved abroad have been left out). In the beginning of the study the individuals were at least 21 but not more than 54 years old; in 1998 the oldest of them did not exceed the age of 65, being thus on the verge of the old-age pension age. Thus everyone who was part of the research group formed in this manner (2,363,000 working age people) was within the normative labour market age limits for the duration of the whole study. It was found out that 4.5 per cent of them were not employed any single year. The

number of people who were part of the labour force during the whole period was about 1,358,000 (57.4 per cent).

**Table 4.** The table of labour force permanence: inclusion in the labour force and employment and share of labour in normal employment in 1988–1998

Stability	Labour force		Employed labour force		Normal employment	
	Persons	%	Persons	%	Persons	%
11 year	1357640	57.4	1025940	43.4	579540	24.5
10 year	270440	11.4	212400	9.0	179320	7.6
9 year	171720	7.3	161800	6.8	136880	5.8
8 year	127360	5.4	148580	6.3	127940	5.4
7 year	93080	3.9	129540	5.5	114240	4.8
6 year	70960	3.0	118660	5.0	113860	4.8
5 year	50500	2.1	116080	4.9	116560	4.9
4 year	37780	1.6	103300	4.4	121860	5.2
3 year	30020	1.3	84740	3.6	118080	5.0
2 year	25500	1.1	68980	2.9	111680	4.7
1 year	21320	0.9	55460	2.3	125320	5.3
0 year	106960	4.5	137800	5.8	518000	21.9
Total	2363280	100.0	2363280	100.0	2363280	100.0

While the permanence of belonging to the labour force in the working age and that of participation in the labour markets are dominant characteristics, they are also relative ones. In the case of most of the people studied, according to the table 4, their belonging to the labour force was terminated at some point during the period. Yet the importance of the strength and permanence of participation in the labour market can be seen in the fact that 81.5 per cent of those who had turned 21 at the beginning of the study belonged to the labour force during at least 8 years of the 11 possible. This can be interpreted as remarkable permanence. It can be expected that the question of (re-)entering the labour force will play a much more central role in the future and the continuous inclusion processes will concern a major part of the working age population. Only 43.4 per cent of the people studied belonged to the employed for

the whole study period; the figure for those employed at least 8 years of the 11 possible was 65.5 per cent. According to the table, 24.5 per cent of all people of the labour market age have been in normal employment for the whole period studied and 43.3 per cent for at least 8 years.

The labour market position of those in permanent employment for the whole period was stable and uninterrupted, which is in agreement with the ideal of normal employment. These people were usually men (54.1 per cent) and their educational level was slightly lower than that of all employed people. Their average age (47 years) at the end of the study period reveals that at the early stages of the study they were approximately 36 years old. Most of them were either wage-earners in the industry (30.9 per cent) or officials in public or other services (23.4 per cent). Every fifth (21.3 per cent) was an upper official and almost 60.1 per cent were employed in the private sector.

The current labour market change is a particularly rapid one and many different developments are possible. The underemployment of the elderly and those about to start their working career has increased more clearly than that of those in the midst of the career paths. During the year 1998, more than half a million (21.7 per cent) of 21–64 year old people belonging to the labour force were unemployed for a shorter or longer period of time. During the period of 11 years, as many as 41.2 per cent of people between 21 and 64 years of age have been unemployed and almost every third (30.2 per cent) has spent at least six months unemployed during at least one year.

During the recession years, a lot of thought was devoted to the problem whether the increasing destabilisation of the employed was related to the decade's recession and the subsequent structural change or whether it was a more permanent phenomenon. In 1998, we presented the tentative view that it is of a more permanent character and this longer study appears to confirm our earlier understanding (Suikkanen et al., 1998). Only in the case of employed wage-earners has the share of normal employment remained around 80 per cent. In the cases of people belonging to the labour force the share of people in normal employment decreased until 1995. While unemployment has generally relieved, the share of normal employment has not increased significantly. The improvement of unemployment does not seem to increase normal employment, since short and temporary employment, as well as underemployment, has become more common. In this sense the Finnish trend follows more general European developments.

Yet the different indicators of the stability of the labour market provide us with slightly different images. Of course, it is clear that the results of cross-sectional studies of the permanence and normalcy of the labour market are overestimating. However, in the 1990s the number of people (depending on the gathering of data) in the employed labour force with full-time jobs has

varied between 50–66 per cent, which shows that stability is more common than instability. According to our results, the differentiation in the conditions of the labour markets has started in the past decade and it is too early to draw final conclusions concerning its extension and significance.

### **Conclusions**

According to our interpretation the social policy implemented in Finland has been subordinated to the model of the national social order. Based on the results of our research, national labour markets appear to be important fields of flexibility and transition in which the labour market positions and social circumstances of wage-earners vary greatly and relatively often. Factors like adaptability to change and active flexibility are appearing more now in wage-earners than normality and permanence. The problem of content and control of social policy has proven to be especially challenging nationally.

The structural individualization which has arisen in the sociological discussion (Pollock, 1997) is a challenge facing us today and a cornerstone in the development of social policy. The concept expresses the individual's own activity, which, however, occurs within the framework of the structural conditions of society. In a situation of powerful social change and turmoil it has perhaps gone unnoticed that the majority of people are prepared to function actively in order to improve their position in the labour markets while at the same time also being rational members of the risk society; and since society's operations are limited by old frames and rigid regulations the individual's functional opportunities are often small. We need space to individualize measures and provide alternative possibilities. In this way the anticipated change is not necessarily realized in respect to the individual as a risk situation but a new opportunity. Instead of a risk, we could even speak of the transition situation as a process which includes both a threat and an opportunity. Such an interpretation of the transition situation would be a good starting point for innovations and reforms supporting the individual's own activity.

The development of social divergence, which represents the end of traditional homogeneity, is clearly visible in people's life-course and the fact that this difference is now acceptable. Since the development of divergence, however, is only beginning to have an effect, it would be forcing a re-evaluation of political practices and breaking down the predominant social modes of thought. The question of inequality, however, raises a problem. Current social policy is justified and legitimated on the basis of the individual being treated equally in the same social situations. In present social conditions the definition of universal

situations no longer suffices. Thus society's possibilities and means to support individualizing work trajectories are becoming more important.

One of our basic ideas is that each era requires its own cultural, social and economic systems and orders. In Finland, we had a significant reformist period of social policy from the late 1950s to the late 1970s when various programmatic, judicial and functional ideas were implemented in education policy (the organization of vocational adult education, the expansion of university education) as well as in social policy (the renewals of the work pension legislation 1959–1963, the organization of social services in the 1960s and 1970s) and tax policy (individual taxation). The aim of these programmes, legislation and practices was to create and strengthen a labour centred society with a number of specific national characteristics including women's large-scale participation in full-time employment, individual social security and taxation (vs. family-based taxation), extensive social services to organize alternative everyday lives and a system of vocational education based on professions. We assume that we are living a transitional period, which generates significant changes at the levels of individuals, organizations, policies and society.

The entry of the younger age groups into the labour markets and the need to keep the aging population working are great challenges. On the basis of the structural changes that have occurred in the labour force during the 1990s we would like to argue that the first step towards solving the problem could be the placement of young people with mere comprehensive school education and older people (more than 45 years) currently outside the labour force in the labour markets. It would be the task of private companies and public sector organizations to provide resources and plan education, rehabilitation and coaching for them. More generally, social security should include social investments in individuals and more aspects emphasising development. It should also aim at creating new opportunities. However, all this requires that the contract system is diversified and developed. It should be possible for people, employed or unemployed, to start updating their skills and study for diplomas (or parts of them). Some concrete steps towards achieving this goal have been taken, as can be seen in the renewals of the education insurance, the aging programme, the renewal of the polytechnic system and the creation of a general attitudinal climate supporting continuous education.



## 6 Occupational and Regional Mobility of Labour as a Means to Find Employment

*Arja Jolkkonen and Riitta Kilpeläinen*

### Introduction

Open markets, competition and flexibility of the labour force were the key words of economic and labour policies in the 1990s. The elimination of barriers to free competition were seen as the preconditions of the well-being based on economic efficiency. To increase the flexibility of the labour force and the productivity of work were considered ways of supporting economic development on the one hand, and means of sustaining continued employment on the other hand (EC: Growth ... 1993; OECD: Jobs ... 1995; EC: Guidelines ... 2000). This ideological model has been applied to both macro and micro economic policies. The recommendations of international organisations, such as the OECD, the World Bank and ILO, and the practical steps taken in individual states have, of course, differed with regard to the degree to which these targets have been met, and to the measures taken to increase the flexibility of the labour force (Leisink, 1999; Sengenberger, 2002).

As an argument, flexibility of the labour force has assumed a special place within this complex issue, as competition and open markets require that these principles be applicable also to labour markets, which have been regulated through international treaties, national legislation and contractual practices. Labour is an interesting factor in production, as its adaptability has many dimensions. The flexibility of the labour force can be based on regional, occupational and social mobility, contractual flexibility (terms and conditions of employment, working hours), and variations in work intensity. All these types of flexibility of the labour force have been studied and improved by sociological, economic, ergonomic, training and labour market research.

The aim of this article is to examine how the classical forms of labour mobility, including regional and occupational mobility alone and in combination, created favourable conditions for the structural changes and upturn in the employment rate in Finland in the 1990s. Regional and occupational mobility of labour has traditionally concerned various groups among the labour force, but in the context of profound structural changes, and with reference to certain

groups, they can also be closely inter-linked and mutually substituting forms of adaptability. We will attempt to ascertain the following: which groups of the labour force are mobile occupationally and regionally, how the various types of labour mobility tend to combine, and does mobility improve the employment prospects of the individual.

In political debate regional and occupational flexibility still hold a key position in labour market adaptability, due to factors associated with regional and production structures, and population and labour force structures. These traditional types of mobility now play a greater role, since urban centres have assumed greater importance as motors of economic growth, and as structural changes in the economy have differentiated regional development.

These were the policies of government and economic actors in the 1990s but, to our understanding, the effects of regional and occupational mobility of the labour force on the employment rate are perhaps not clear-cut. Increasing regional mobility of the labour force might have speeded up structural changes in the economy and supported growth, thus boosting the employment rates of growth centres and certain groups of workers, while differentiating labour force structures regionally and socially. The economic divergence of regions and the differentiation of population and labour force structures in recent years have given rise to the question of whether the population issue will become a factor slowing down economic growth in the future. A decreasing and ageing population and growing dependency ratio can jointly become such a factor, especially in areas with a negative migration balance. (OECD: Employment Outlook, 2000; Saijets and Honkanen, 2000.)

### **Research Data**

Our study data was extracted by Statistics Finland from its individual based data, and it represents the entire working-age populations living in the urban regions of Joensuu, Kokkola, Lahti, Oulu and Tampere from 1990 to 1998 (Figure 1). The data contains detailed information on roughly 66,000 persons, related to their gainful employment, unemployment, studies, livelihood, migration, living, families, and their spouses' work history. The data provides a full picture of the working-age population of these urban regions, and lends itself to an analysis of the mobility of individual members of the potential labour force. The urban regions were selected on the basis of the results of Finland's Urban Network Study 1998 (Vartiainen and Antikainen, 1999). The chosen regions represent various developmental models of the regional differentiation process. The functionally significant urban regions were geographically defined on the basis

of commuting patterns – commuters crossing municipal boundaries when going to work – in other words, areas functioning as local labour markets.

In our opinion, regional mobility of the labour force should be analysed in the context of the local labour markets. The migration of labour should be studied as migration between functional labour markets. Migration between regions and commuting will have a considerable effect on the development of population, labour, and workplace structures in a region. The migration opportunities and habits of various sections of the labour force, the quantity and quality of vacancies, and the housing market, are the essential factors controlling the regional mobility of labour. Occupational mobility is also tied to the opportunities available in the local labour markets.

#### Description of the five urban regions (p. 104)

*The Oulu region:* a large university region, where industry and private sector have balanced the structure of production, which was earlier based on the public sector. The strong growth of the electronics industry in the Oulu region has meant that also GNP-numbers have developed strongly since 1993. The Oulu region is one of the most strongly growing urban regions in Europe in the 1990s if looking at the population growth. (Antikainen 2000.)

*The Joensuu region:* a region based on the public sector. Its university and role as a regional governmental city are the strengths of the Joensuu region. A remarkable part of its competence base are its science park and population with a master's degree level of education. The Joensuu region had a positive migration rate in the mid 1990s, but the trend in employment development was negative.

*The Kokkola region:* a diverse urban region. Although it is a regional centre, its role as a regional governmental actor is not very strong. The private sector is more significant than the public sector in employment. Until the mid 1990s the migration trend has been negative and the number of jobs has decreased. There is no university in this region.

*The Lahti region:* an urban region where industry has an important role. Most enterprises are small and the role of the public sector in employment is not significant. Services are important for employment. There is no university in this region and the share of population with a master's degree level of education is lower than the average in Finland. (Lahden kaupungin elinkeino-ohjelma vuosille 1999–2006.)

*The Tampere region:* a diverse urban region where the electronics industry plays a major role. There is a university in the Tampere region. Net-migration in the late 1990s was positive and the number of jobs increased. The unemployment rate was still at quite a high level in the end of the 1990s. (Antikainen 2001.)

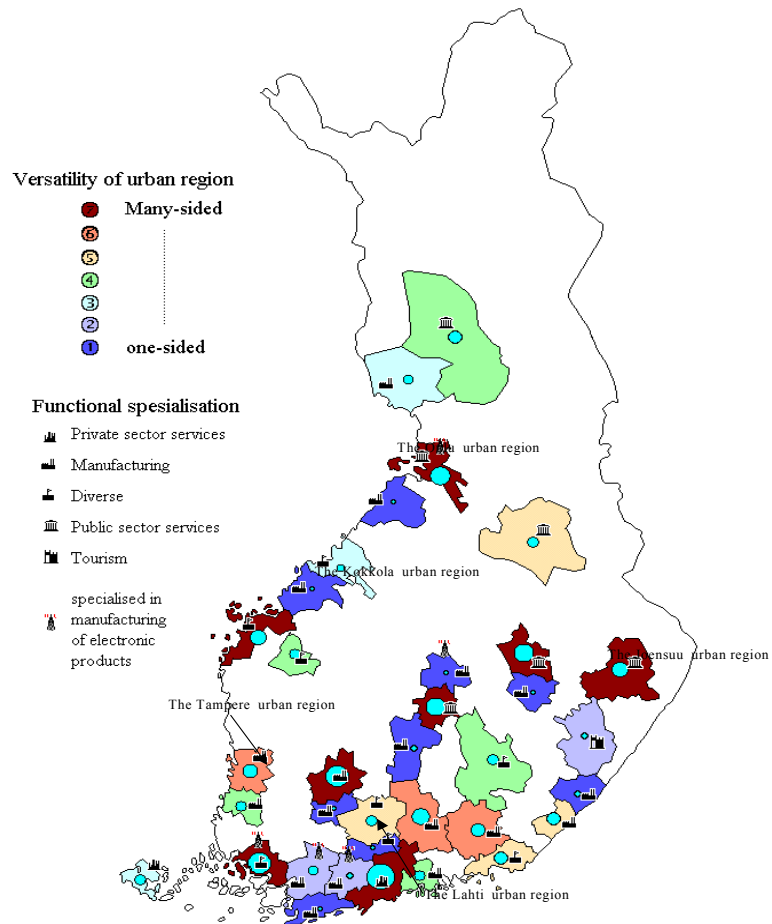


Figure 1. The location and status of studied urban regions in the network of functionally significant urban regions in Finland (map Vartiainen and Antikainen 1999)

It is essential for handling the research data and the findings that we make an effort to process the data on individual subjects extracted from the databases according to the objectives of longitudinal analysis. The data extracted from registers can be used to study the regional and occupational mobility of individuals on one hand, and the employment and unemployment rates on the other hand, with reference to all essential factors during the period 1990 to 1998. The data can be used to construct patterns of regional and occupational mobility of individuals, and their employment histories. The data contains detailed information on the employment or unemployment status of the individuals. The employment-promoting effect of occupational and regional mobility (the micro-level effect on the employment rate) is assessed in terms of the duration of jobs or periods of unemployment annually.

### **Mobility of Labour and Employment Rate**

The regional and occupational mobility of labour and the employment rate can be seen as interactive processes. The regional and occupational mobility of labour can boost the employment rate, whereas fluctuations in the employment rate (the demand for labour or unemployment) can create pressures and favourable conditions for the regional and occupational mobility of labour. In this study we were interested in finding out how common regional and occupational mobility of labour are, which groups are principally involved, how the forms of mobility are interlinked, and how the various forms, such as change of sector, line of business, or job, further education or training qualification, or regional mobility affect the employment prospects of the individual. The study was based on files of individual, longitudinal data, which enables us to examine whether regional and occupational mobility of labour boosts the employment rate.

We assume that regional and occupational mobility are socially very selective processes. Several hypotheses have been presented in research literature on commuting,<sup>1</sup> and social selectivity on the basis of age, education, gender, occupation, and on changing one's place of domicile (see Jolkkonen and Koistinen, 2001). Theoretically, these two forms of mobility could be mutually exclusive alternatives. The unemployed or newly qualified can try to find work on the basis of their occupational qualifications either by relocating, or changing occupation, getting further education, and continuing to look for work in the locality

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<sup>1</sup> Commuting refers to travelling daily across municipal boundaries to work.

where they live. In practice, they may well need to resort to both kinds of measures. Thirdly, we can assume that the likelihood of finding work and the duration of such employment vary according to the measures the person resorts to (change of sector, line of business, or job) or change of occupation (change of occupation, further vocational training in the same line or a different line of business), or a combination of these forms. In this article, we are trying to describe this phenomenon<sup>1</sup> empirically, instead of examining the hypotheses arising from research literature.

*Regional Differentiation of Labour Markets and the Mobility of Labour in Finland*

Regionalisation is a significant factor concerning the regional differentiation of labour markets. Regionalisation is now considered the primary structural change of the regional system in our country. Regionalisation referred originally to the growth of functionally diversified large and medium-sized urban regions, and within such regions, it referred to the dispersion of the growing population to the surrounding rural areas (Antikainen and Vartiainen, 1998).<sup>2</sup>

The Finnish urban network is characterised by one urban centre meeting European standards (the Helsinki region), a few strong national centres, all situated in the south of Finland with the exception of Oulu, and a few dozen medium-sized and smaller regional centres. In the 1990s, the logic behind urban regional development changed. The recession seemed to wipe away the traditional model of regional and local development, in terms of which the economic well-being of the urban region depended on basic industry and services produced by the public sector. The urban regions specialised in the services produced by the public sector have stagnated, while the urban regions specialised in the design and production of information technology have developed. After the recession, from 1994 onwards, the competition between urban regions has intensified despite mutual efforts to promote collaboration and networking.

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<sup>1</sup> This subject has been addressed in more detail by Jolkkonen in her (2001) study of occupational and regional mobility and by Jolkkonen and Koistinen (2001) in "Työmatkat pidentyneet kaupunkiseuduilla" ("The journeys from home to work have become longer"), (Kuntapuntari 1/2001).

<sup>2</sup> The urban region can be defined as an actual site of the daily functions of the local population and diverse organisations of the community. A functional region is primarily defined on the basis of labour and housing markets (Antikainen and Vartiainen, 1998).

Large university cities or towns, and regions specialised in the electronics industry, have fared best in this competition. (Antikainen and Vartiainen, 1998; Antikainen and Vartiainen, 1999; Antikainen, 2001a.)

In terms of traditional development theories, local economic growth should lead to a higher employment rate, and consequently to a positive migration balance. This nearly causal relationship between the growth of local economies and the employment rate has, however, changed to some extent during the 1990s. The conditions and features of this development correlate fairly well in Finnish urban regions. The urban regions with excellent or good chances of developing have achieved positive migration balances, employment trends and unemployment rates. Despite this, some regions with strong economic growth suffer from high rates of unemployment and negative migration balances, and vice versa. (Antikainen and Vartiainen, 1998.)

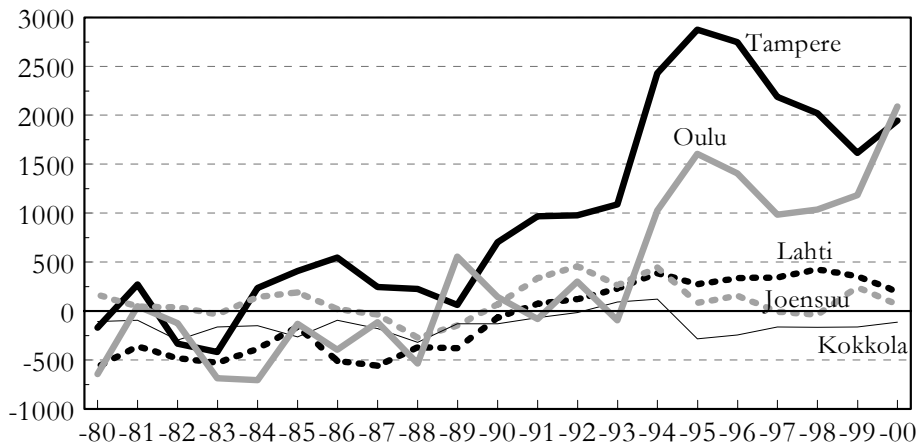
#### *Regional Mobility of Labour and Employment*

*Migration and the employment rate.* The regional mobility of labour – migration between and within regions and commuting – has played a major role in the adaptation process of Finnish labour markets in the 1990s. Internal migration reached its lowest point in the past two decades during the recession years of 1991 and 1992. In 1993, internal migration in Finland became more common and this trend has been growing ever since.<sup>1</sup> As growing national centres, the urban regions of Tampere and Oulu differ from the other regions studied as far as migration is concerned (Figure 2). Net migration in Tampere remained positive throughout the 1990s, whereas it has been positive in Oulu only since 1994. In Lahti, net migration was slightly positive in the 1990s. In the latter half of the 1990s, out-migration exceeded in-migration in some years in Joensuu, while the net migration remained negative throughout that period in Kokkola. An interesting aspect of migration between regions is that the direction was not always from rural areas and small urban centres to urban regions: there was also a growing trend of migration between important urban regions in the 1990s. The Oulu and Joensuu urban regions had the greatest volume of in-migration from rural areas and small urban centres. Out-migration from the urban regions

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<sup>1</sup> The heavy growth of migration is partly attributable to the law reform of 1994 concerning the municipality of domicile, which enabled students residing elsewhere while studying to remain formally registered as inhabitants of the municipality where they regularly live, instead of changing their formal domicile every semester.

studied was primarily (80 per cent) heading for other central urban regions in the 1990s.



**Figure 2.** Net migration to core municipalities in urban regions during 1980–1999

Being regionally and socially selective, migration can affect the employment opportunities of various groups and regions differently. In addition to considering the annual flow of in and out migration, we should bear in mind that some of the migration is recurring. Recurring in-migration is either destined for another region, or returning to the source area. Among all the migrants to or from the regions studied during 1990–1998, 24 per cent had migrated repeatedly. Recurring migration appears to be associated with employment opportunity and career advancement.

But as will be shown below, there are other underlying factors to migration, which have an effect on the regions' social structures, and through which influence the functioning of labour markets and the need for welfare services. When we studied the labour market orientation of migrants in the five regions included, we found discernible differences between the regions. The rate of in-migrants hoping to enter the labour market has dropped ever since the recession years of 1992 to 1993, with the exception of Joensuu and Oulu, where this trend was evident a few years later.

The facts that the public sector is a major source of employment in East and North Finland, and the effects of the recession on the employment rate were first felt in the private sector, should partly explain this phenomenon. There is considerable in-migration to Joensuu and Oulu regions from the outlying areas



because of the educational or employment opportunities available. Almost half of all the in-migrants to these two regions came from rural areas or small communities.

Concerning the social and employment effects of migration, it should be noted that out-migration and in-migration are structurally different. More than one half of the working-age in-migrants, who were formally registered as inhabitants of the Tampere, Oulu and Joensuu regions in 1998, went there to study, about 40 per cent entered the labour market, and less than 10 per cent did not belong to the labour force, nor did they register as students. In Lahti and Kokkola, the proportion of people not belonging to the active population was almost twice as large as in the other regions studied. Nearly one half of the population of working age, who migrated from Tampere and Oulu, sought work elsewhere, and less than 40 per cent of them migrated to further their education or training. Of the people migrating from Joensuu, nearly one half went elsewhere to study, and 40 per cent to find work. In the Lahti region, both the out-migration and in-migration is predominantly attributable to the mobility of labour. About one half of the in-migrants and a slightly smaller proportion of the out-migrants were heading for the labour market. Of the working-age in-migrants to Lahti, education was the motivating factor in 35 per cent of the cases, and the same applies to 40 per cent of the out-migrants.

More than 40 per cent of the migrants heading for the labour market were less than 30 years of age, roughly 40 per cent were 30 to 44, and 15 per cent were 45 to 64. Concerning entry in to educational markets, 90 per cent of the in-migrants and 74 per cent of the out-migrants were under 30 years of age. The largest age groups among those excluded from the labour force and educational pursuits were those aged 25 to 29 years and 60 to 64 years (Table 2).

The educational qualifications of the in-migrants and out-migrants heading for the labour market did not differ significantly. In terms of educational level and field, the largest groups were: Secondary level technical and service sector qualifications, secondary-level vocational training in commercial or social science, higher vocational education in engineering, university education level in commercial or social sciences, and secondary-level vocational qualification in engineering. About 6 per cent of the migrants had passed the Matriculation Examination, while one-fifth had no further educational qualifications past comprehensive school.

**Table 2.** Migrants' ages in relation to purpose of migration in 1998

Age group	To enter labour market		To enter educational market		Other reason for migration	
	In-migration	Out-migration	In-migration	Out-migration	In-migration	Out-migration
15-19	0.6	0.7	17.8	16.1	1.9	1.6
20-24	19.6	15.7	51.6	46.7	10.8	16.1
25-29	22.9	27.7	20.3	23.7	16.6	21
30-34	20.5	19.2	6.8	8.2	13.4	20.2
35-39	12.5	13.1	1.7	2.9	10.8	9.3
40-44	9.7	7.1	0.7	1.3	5.7	6.5
45-49	5.6	7.2	1	0.7	5.1	3.6
50-54	5.3	5.2	0.1	0.4	10.8	5.7
55-59	3.0	3.3	0.1	0	7	6.5
60-64	0.3	0.8	0	0	17.8	9.7
Sum total	100	100	100	100	100	100

The mobility of labour was greatest in industry, social and health care services, in the wholesale and retail trades, and in the building industry. Industries manufacturing radio, TV and telecommunications equipment, and machinery or other kinds of equipment gained most from the migration of labour.

The migration appears to be selective on the basis of age, educational level, occupation and line of business. The employment opportunities of in-migrants varied greatly between regions (Table 3). When assessing employment rates on the basis of months employed annually, it seems that in-migration to the Lahti, Oulu and Tampere regions enhanced employment prospects, whereas in-migration to the Joensuu and Kokkola regions had an opposite, negative effect. In-migration to the Lahti and Oulu regions had the most favourable employment effect. The facts that the rate of those not employed at all fell, and the rate of those employed for 10–12 months of the year grew, are proof of the positive employment effect. The in-migrants to the Kokkola region had the poorest employment prospects.

**Table 3.** Employment and unemployment rates of the 1998 in-migrants for that and the preceding year ( per cent)

	Months employed					Months unemployed				
	Lahti region	Joensuu region	Kokkola region	Oulu region	Tampere region	Lahti region	Joensuu region	Kokkola region	Oulu region	Tampere region
<b>1997</b>										
0 months	20	25	22	21	20	55	52	39	57	64
1-3 months	9	9	4	12	7	8	15	30	13	14
4-6 months	20	9	17	13	13	10	13	13	15	9
7-9 months	8	11	13	8	9	16	12	9	8	6
10-12 months	44	45	44	47	52	11	8	9	8	8
<b>1998</b>										
0 months	12	24	26	18	12	34	36	26	48	53
1-3 months	12	9	9	6	9	35	16	22	14	16
4-6 months	13	13	26	10	14	13	24	22	19	14
7-9 months	13	15	17	14	10	9	11	17	9	8
10-12 months	50	39	22	53	55	8	13	13	11	10

Migration is usually also accompanied by unemployment, as the unemployed migrate to other centres more frequently during an upswing in the economy. We found the greatest proportion of workers, who were not at all unemployed during their year of migration, among the in-migrants to Tampere (53 per cent) and Oulu (48 per cent). The in-migrants to the Joensuu and Kokkola regions accumulated the most months of unemployment. This result seems somewhat surprising, considering that it is an often-repeated complaint in public debate that the unemployment rates of the Oulu and Tampere regions are high, although they both have high population growth rates. A comparison of urban regions during 1997–1998 does not fully support this idea, at least in regard to migrants. The positive effect on the employment rate of migration to the Lahti region remains noteworthy.

*Commuting and employment.* Further signs of the regionalisation of the labour market and increasing regional mobility (Jolkkonen and Koistinen, 2001) are that now men and women travelled longer distances to work than before, and

commuting was becoming more common. In Finland, where the majority of women are working, their average distances between home and the workplace were slightly shorter than those of men in the urban regions studied, but the distances women commuted during 1990–1998 continued to increase more than those of men. That is a sign of labour market mobility and proves that the parents of small children have to be more adaptable in combining work and caring for their families.<sup>1</sup> Although commuting has become more common, and the distances travelled between the home and the workplace have become longer, the model of going to work daily no longer matches today's practices in working life, nor the patterns of mobility. Alternative models of employment have emerged parallel to the traditional form of gainful employment, including distance work, employment co-operatives, various forms of self-employment, and mobile workplaces that might not guarantee work each day, at least not on the same premises or single sites.

In order to be able to assess the way in which commuting affects the workers' employment prospects, we divided the labour force into four categories: Continuing commuters, new commuters, past commuters, and non-commuters. The purpose of this classification was to discover what effect a change in commuting behaviour would have on the employment. We can assume that the labour force includes both workers who are not commuting at all (70 per cent), and those who have been commuting for several years (20 per cent). The one feature these two groups have in common is that nothing has actually changed in their commuting patterns. It could be argued that the new commuters<sup>2</sup> (7 per cent) and past commuters (2 per cent) are comparable groups inasmuch as we

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<sup>1</sup> Family services and the services boosting well-being have played key roles in evolving the model for Finnish women in gainful employment (cf. Rissanen, 2000), but now the increasing regional mobility, combined with the re-organisation of public services and growing demands for flexibility, has again created a need to reform children's day care services and to introduce tax relief for commuting costs. Tax deductions related to child-care in the family home (tax deductions for households, employment subsidies for businesses and co-operatives rendering child-care services) were introduced during the recession years. In the year 2000, the government submitted a draft bill to the Finnish Parliament proposing that employers be allowed to provide child-care services to their employees, for example during a child's illness, without imposing a tax payable by the families making use of such services.

<sup>2</sup> The percentage refers to the size of the group within the labour forces of the urban regions in 1998.

can assume that an employment aspect is associated with their commuting decisions.

The way in which commuting affects the employment was assessed on the basis of annual changes in the number of months employed (Table 4). The number of months employed grew in all groups, indicating commuter mobility from the year 1993 onwards. Changes in commuting patterns had a significant, positive effect on the employment. The number of months employed annually grew most among new and past commuters. The number of months employed annually remained largely unchanged among continuing commuters and non-commuters.

**Table 4.** Change (per cent) in the employment rate of commuters in 1998

Change in employment rate	Continuing commuters	New commuters	Past commuters	Non-commuters
Increased	12	52	28	20
Unchanged	84	34	61	75
Decreased	4	14	11	5

The number of months employed in 1998 increased for more than one half of the new commuters and for nearly 30 per cent of the past commuters. The number of months employed annually changed least among continuing commuters, non-commuters and past commuters. The number of months employed annually decreased for 14 per cent of the new commuters and for 11 per cent of past commuters. The number of months employed annually increased for only 12 per cent of the continuing commuters, and for only 20 per cent of the non-commuters.

This result shows that the beginning or finishing of commuting signifies mostly an improvement in the employment situation of the individual. Almost one-third of all employed workers are commuters, and although new and past commuters accounted for only 9 per cent of the total labour force in the urban regions studied, the change in commuting frequency is an indication of the positive relationship between regional mobility and employment. In the 1990s, internal migration has become a factor promoting labour market adaptability and employment prospects, while being a factor increasing the regional differentiation of labour markets. Although differences in employment have generally grown, increasing regional mobility of the labour force has served to narrow the gap in mobility between men and women, and the locations of their respective workplaces are no longer significantly different.

*Occupational Mobility*

The availability of educational centres has increased the regional mobility of the labour force and has introduced new characteristics to this mobility. Research on urban migration and the mobility of the labour force (Laakso, 1998; Antikainen and Vartiainen, 1999; Antikainen, 2001b; Jolkkonen, 2000; Kilpeläinen, 2000; Ritsilä, 2001) indicated indisputably that mobility has been extensive, particularly among educated workers, and that migration in, out of, and between urban regions has developed into a new kind of mobility for the labour force. This means a networking of urban regions based on human capital, and increasing transfer of knowledge and experience.

Changes to education policy and the consequent increase in occupational mobility of the labour force have contributed significantly to the structural changes of the economy. In the 1960s and 1970s, Finland reformed her system of general, basic, vocational and university education by changing both curricula and the educational system. As a result of the reform, the volume of education grew and developed into a system of university education covering the whole country. University education policy was then a means to implementing regional policy. The structural change of the 1990s posed a challenge for the education policy and the promotion of occupational mobility. This resulted in the development of the polytechnic educational system and implementation of the learning centre program (Final Report of the Urban Policy Collaboration Work Group, 1997–1999, *Kaupunkipolitiikan yhteistyöryhmän 1997–1999 loppuraportti*). The creation of the polytechnic educational system has resulted in an improvement of the level of vocational education, an increase in volume of education, and more effective steering of education towards growing production areas. Even though the educational reform is still in full force, one can already claim that the speedy structural changes in the economy and labour market would not have been possible without these reforms.

*Occupational mobility and employment.* One can discern various reasons for occupational mobility, such as the changing of occupation, line of business, employer or job. In this research the changing of line of business or employer sector has been assessed on the basis of whether the individual has made changes in these areas during consecutive years. Job changes have been assessed on the basis of whether the individual has had one or more jobs during the year in question. If he had several jobs, he has been classified as a job changer. Because our data includes information on the individuals' occupations during the years 1990, 1993 and 1995 only, changes in occupation cannot be monitored as accurately as the other forms of occupational mobility. Thus, we have come up with four forms of occupational mobility: changing lines of business, employer sectors, jobs, and occupations. According to our records for 1998, 10 per

cent of the labour force changed their line of business, 5 per cent changed employer sectors, and 25 per cent changed jobs. It is important to note that a change of job does not necessarily mean change of employer.

The effects of occupational mobility on employment and on changes in employment were assessed on the basis of months worked in each year. People were divided into groups<sup>1</sup> according to the number of months worked in the year: permanently employed, partly employed, underemployed and non-employed. The largest one of these groups was the permanently employed, accounting for 80 per cent of the labour force in 1991 and 70 per cent in 1998. At 60 per cent, this rate was at its lowest in 1993. The proportion of the partly employed and underemployed was about 10 per cent, and the proportion of non-employed grew to about 20 per cent during the recession (Koistinen, 2002).

**Table 5.** Changes of line of business, employer sector, or job in 1998 as percentages of the employment groups

	Permanently employed	Partly em- ployed	Under- employed	Non- employed	Total
Changed line of business					
No	68	7	9	16	100
Yes	83	10	4	1	100
Changed employer sector					
No	69	7	8	16	100
Yes	79	12	7	2	100
Changed job					
No	82	5	7	5	100
Yes	61	18	16	5	100

These results indicate that occupational mobility generally has a positive effect on the employment of the individual and that the various forms of mobility of the labour force affect employment in different ways:

<sup>1</sup> We have divided the employed into groups on the basis of the length of the employment period: *Permanently employed*, which we have defined as having been employment for at least 10–12 months of the year, or 20 months in two consecutive years. The *Partly employed* were employed for 7–9 months of the year studied, or 14 months in 2 consecutive years, of which at least 6 months were in the period studied. The *Underemployed* were employed during 4–6 months of the year studied, or at least 8 months in 2 consecutive years, of which at least 4 months were in the period studied. The *Non-employed* were employed for 0–3 months in the year studied.

- Changing the line of business was more common than changing the employer sector. The employment prospects of line-of-business changers improved, as of 1993, more than for those employed in their own line of business, i.e. for those who did not change their line of business. In 1998, for example, 83 per cent of the line-of-business changers belonged to the permanently employed category, 16 per cent to the partly or underemployed category and only 2 per cent to the non-employed category. Of those that did not change their line of business, as much as 16 per cent belonged to the non-employed group.
- The employment prospects of persons changing employer sector were better during the whole survey period than those who did not change employer sector. Changing one's employer sector did influence the prospects of permanent employment. Also, nearly all the employer-sector changers belonged to the permanently employed or the partly or underemployed categories.
- On the basis of the number of months worked in the year, the employment period for job changers improved, but their employment prospects did not improve as clearly as those of the line-of-business changers or employer-sector changers. Job changers in the partly and underemployed group were employed more often than were the others.

Changing one's line of business or employer sector clearly predicted better employment prospects, when the basis for analysis was the number of months worked. The employment prospects of line-of-business changers and employer-sector changers improved for both men and women, when the survey period was extended to two years. In 1998, line-of-business changers accumulated on average 10.8 months of work, while the employer-sector changers accumulated 10.5 months of work. In contrast, changing jobs did not improve employment prospects, as job changers accumulated on average 9.4 months of work while those who did not change jobs accumulated on average 10.6 months of work in the year.

Twenty-three per cent of the labour force in the urban regions studied changed occupation during 1990–1995. Changing occupations was twice as common during 1993–1995 than during 1990–1993. There are many factors that affect the change of occupation: The search for a more permanent position, unemployment, and a further education. During the period of 1993–1995 the most frequent changes of occupation were in the fields of accounting and office technology, mostly by changing from them to secretarial, bookkeeping or other commercial fields. The second most frequent changes of occupation concerned changing from commercial fields to wholesale and retail trade, and to the administration of businesses and organisations. The third largest category was com-



prised of those changing occupation from machine shops and construction metal work to electrical work, machine operators and supervisory work in the technical field. The fourth category consisted of those changing occupation as supervisors or workers in the technical field mainly to administration of businesses and organisations and to the commercial field.

Men changed occupation more often than women did. Of those who changed occupation, 55 per cent were men. Occupational mobility was the highest in the group of 39–45 years of age. 27 per cent of occupation changers had no vocational education. Of those who had vocational qualifications, 27 per cent had technical qualifications and 23 per cent had commercial or a social sciences qualifications. Of those who changed occupation, about a quarter had commercial or social sciences qualifications. Educational qualifications in this field carry employment opportunities in various occupations, and occupational skills obtained at work can often be utilised with another employer (Jolkkonen, 1998).

In 1992, 65 per cent of those who had changed occupation were in permanent employment (12 months of the year), and in 1995, 67 per cent after changing occupation. 74 per cent of all those who changed occupation worked for one employer only in 1992, and 14 per cent had two employers. In 1992, 26 per cent of those who changed occupation were unemployed, and 33 per cent were unemployed from 1993 to 1994. About 7 per cent of occupation changes were also related to employer sector changes.

Occupational mobility appears to be an alternative to regional mobility, at least for some of the labour force, though occupational and regional mobility are tied to the local employment opportunities. Changing occupation was more common among the permanent residents of urban regions than among those who moved to the region. An exception to this was the small, industrial Kokkola region, where a noticeable proportion of the men who had moved to the region had changed occupation. In other urban regions, the out-migrants included more occupation changers than the in-migrants. Those who migrated repeatedly changed occupation noticeably less often than other migrants, and especially women working in the nursing field used regional mobility as their employment strategy.

It is important from the functional viewpoint of the labour market, to what degree occupational and regional mobility can compensate one another, and in which occupations and at which education levels it is feasible. According to the results of the present study, it seems that occupational mobility is common with those who lack vocational education and rely only on occupational skills gained at work. The unemployed may also often change occupation in order to gain employment. However, our research also indicates that occupational and regional mobility do not necessarily compensate one another, being rather interre-

lated forms of adaptation. For example, workers in the fields of technical or natural sciences, who have secondary level vocational qualifications, and workers in the commercial field, who have higher level vocational qualifications, often change occupations and migrate.

*Education, occupational mobility and employment.* By default, education promotes occupational and regional mobility. This is, nonetheless, not a once-off solution, as many acquire education in various fields in the course of their career, especially if they are in times of or occupations with poor employment prospects (Viinamäki, 1999; Koistinen and Kurvinen, 2000). Women in particular opt for further education, even if it does not directly improve their earning potential or career options (Lilja, 1997; Vartiainen, 1998). Education, and above all the siting of educational institutions in urban centres, can accelerate the regional mobility of the labour force and the differentiation of urban regions. We studied the participation in education by the working age population in terms of the following categories: First vocational qualification, second vocational qualification having some other previous vocational qualification, participants in labour market training, holders of vocational qualifications whose educational status had not changed, and those who lacked vocational education. Of all the forms of occupational mobility, job changing was the most common form of mobility in all categories. Most job changers (about one-fifth) belonged to the category comprised of those who had obtained a second vocational qualification. The second most common form of mobility was the changing of lines of business. Of all of those who had participated in any education, participants in labour market training changed line of business the most often (6 per cent). Changing one's employer sector was not that common, and the holders of a second vocational qualification changed employer sector the most (4 per cent). Occupational mobility was most frequent in 1998, and least frequent in 1993. Participation in education can be linked to occupational mobility, being the most common among the holders of a second or first vocational qualification during all the years studied.

**Table 6.** The effect of education and occupational mobility on employment in 1998

	Perma- nently employ- ed <sup>1</sup>	Partially employ- ed	Under- employ- ed	Non- employ- ed	Total
<b>First vocational qualification</b>					
No occupational mobility	29,4	20.7	15.7	34.2	100
Occupational mobility	37,6	26.3	26.8	9.3	100
<b>Second vocational qualification</b>					
No occupational mobility	42.6	16.4	14.6	26.4	100
Occupational mobility	53.4	26.4	15.4	4.8	100
<b>Participants in labour market training</b>					
No occupational mobility	22.3	8	14.6	55.1	100
Occupational mobility	34.4	23.7	26.9	15	100
<b>Those with no change to their education</b>					
No occupational mobility	80.1	3.4	4.5	12	100
Occupational mobility	73,1	13.2	9.8	3.9	100
<b>Lacking vocational education</b>					
No occupational mobility	62.7	5.4	7.9	24	100
Occupational mobility	55	20.1	20.3	4.6	100

Occupational mobility, and especially participation in education, improved employment prospects in all five categories. Occupational mobility did not, however, always increase the proportion of permanent employment, the rate of more unstable jobs could also grow. This kind of mobility was typical for the holders of vocational qualifications, as well as for those lacking such qualifications, when they change jobs. In 1991, 1992 and 1995, the same phenomenon was apparent among line-of-business changers in the same categories. Changing from one sector to another did boost employment prospects, regardless of participation in education programmes.

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<sup>1</sup> Cf. footnote 1, p. 115.

## Conclusion

Regional and occupational mobility of the labour force have clearly increased after 1993 with the growth and structural reform of the economy. Regional and occupational mobility of the labour force appears to have improved the individual's employment prospects, as well. In the event that this mobility was linked to growing income, the regional and occupational mobility of the labour force could be seen as beneficial for the individual, and it could be considered to have promoted the growth and structural reform of the economy (Laakso, 1998). Looking at regional mobility in the long-term and considering its effect on regions, it appears that regional mobility can lead to greater regional and social differences, which could in turn lead to the dissimilar, unequal development of welfare services, including educational, health care and social services, in the regions.

In time, the differentiation of population and labour force structures could undermine the prerequisites of economic growth, particularly in regions where the labour force has been reduced by out-migration, or where their labour structures are otherwise distorted. Furthermore, as long distances to work become more common, the burden of working increases, the work-related expenses rise, and the worker will find it even more difficult to combine work with continuous learning, work and family life. Considering the costs to society, one could question which option would be more favourable in the end: the promotion of regional, as opposed to occupational, mobility, if the two were mutually exclusive alternatives.

The regionalisation of the labour market and the birth of "excessively large commuting areas" have been proved to increase regional imbalance and to pose a threat to economic growth. For example in Sweden, three alternative models for adaptation of the labour market have been proposed (Ekonomiska Utsikter, 2001):

- An active government policy could be used to steer jobs to places where people prefer to live.
- People migrate to centres of greatest economical growth.
- Increase the commuting facilities outside large growth centres.

To reduce regional differences, LO (Landsorganisation, the central labour union organisation) economists in Sweden have suggested that additional measures should be developed in order to facilitate increased commuting. It would be more economical for the community to promote commuting, as opposed to promoting internal migration. The accumulation of labour force in large cities also causes price escalation in the property markets, resulting in a need to develop additional welfare services. Not only are educational, health and social services at issue here; labour policy and services also need developing.

The increase in regional or occupational mobility of the labour force, and especially the necessary support measures thereof include social reforms, the development of labour services and regional differentiation. Some examples of functions requiring rapid reform:

- The balancing of loss of income due to commuting and occupational mobility (education, intermittent jobs) and to work-related expenses
- The development of support services for those commuting long distances (the right to use welfare services and to access them, health care and nursing services, etc.)
- The development of public transport to meet equally the needs of workers employed in centres congested by traffic, in their surrounding areas, or in sparsely populated rural areas.

Regional experts have suggested that urban and employment policies should be differentiated on the basis of the region's status and characteristics. A policy for large urban areas should be applied to the Helsinki, Tampere and Turku regions. At the other end of the scale, the regions surrounding single-industry towns need suitably tailored policies. Similarly, medium-sized university regions need their own model for political action (Antikainen and Vartiainen, 1998). This kind of regionalisation of policy would also benefit employment policy.

## 7 Reforming Working Times in Finland During the 1990s

*Raija Julkunen and Jouko Nätti*

### Introduction

In the 1990s Finland went through multiple economic and social crises. The force of international restructuring penetrated Finland. Deepening integration, with concomitant reforming of economic and social institutions, was mobilised in the boom years of the 1980s. One turning point was the Holkeri Administration in 1987, which included the modernisation of Finnish working life and the public sector in its programme. Already before that, Finland had joined the stream of liberating money markets. The deep recession (1991–94) accelerated the restructuring process, in fact, fulfilled it in many ways.

Sakari Hänninen (1998) describes the Finnish restructuring of the 1990s as an accumulative process in which governmental initiatives and events have followed, or according to this logic should have followed, one after another, so that a definite pattern of four stages can be distinguished. These stages can be termed as economic integration, cutting down public spending, making the labour market more flexible, and individualisation.

Reformulating Hänninen, we argue that all industrial nations have, since the 1980s, lived through four partly successive, partly intertwining reforms of economic and social institutions and policies. The deregulation of financial market institutions in the early and mid-80s got the process moving. This was followed by reforms in the public sector, labour market and welfare. The transformation was deepest, most coherent and consequential in New Zealand, which “in less than a decade changed from a bastion of welfare interventionism to a liberal reformer’s paradise” (Larner 1996, 33).

Compared to countries – especially New Zealand – which have the honour of being the epitome of neo-liberal reforms, the labour market and welfare reforms in Finland have been incremental and presented in pragmatic, rather than ideological tones. This chapter discusses the obstacles to radical reforms, as well as the continuities of the welfare and labour market regimes established during the 1960s, or their path-dependency, as (neo)institutionalists (Esping-Andersen, 1999; Kitschelt et al., 1999; Pierson, 2001; Wood, 2001) call the resistance embedded in institutions themselves. In general, the explanatory

power of neo-institutionalist theories, which stress the divergence of the responses by the advanced economies to common challenges, is far greater than that of the convergence theory, expecting all industrial economies to approach liberal labour markets and the residual welfare state.

### **A Concerted Adaptation Within the Nordic Frame of Industrial Relations**

Finland is a late-comer in Nordic industrial relations, having since the 1960s converged to the Nordic group of industrial relations, that is, a Scandinavian style of centralised corporatism (Bruun et al., 1990; Bruun, 1994). In this paradigm both labour and capital are well organised and the labour market is subject to extensive legal regulation. In the late nineties about 80 per cent of employed wage earners were trade union members and still more were governed by collective agreements. In the 90s, the coverage of collective agreements was 95 per cent, the highest rate in the Western world (Esping-Andersen, 1999, 20).

After introducing this new style, Finland continued, if fitfully, to practice corporatism throughout the 1980s, while at the same time it collapsed in Sweden. In the early 1990s, during the recession, the macro-level concertation was even revived and expanded. The workers agreed to a freeze on wages, and later the negotiations focussed on a comprehensive package of measures designed to alleviate unemployment, including decentralisation in bargaining (Grote and Scmitter, 1999). Finland has preserved its coordinated and centralised system in a modified or recast form rather than abandoning it (Rhodes, 2001, 167).

To be sure, in no country of the European Union (with the possible exception of France) has recent legislation or collective bargaining added further rigidities to the labour market. In all countries, labour market reforms have tended to inject a higher degree of flexibility (Regini, 2000). Regini distinguishes two polar types of response to the common challenges, one based on unilateral initiatives of deregulation and decentralisation made by economic elites, and the other aiming to achieve concerted reregulation among central actors.

At the beginning of the 1990s, the Finnish employers utilised the situation created by the economic crisis by making an offensive towards labour market institutions and social security arrangements (Köykkä, 1994). EVA (The Centre for Finnish Business and Policy Studies, a think tank of business life) suggested as late as 1997 that we in Finland should follow New Zealand in the deregulation and individualisation of labour markets and employment relationships. However, the employer associations retreated quite suddenly regarding their most radical demands. Therefore, Finland in 1990 is rather a case of the revival

of concertation and social pact than deregulation (Grote and Schmitter, 1999; Regini, 2000).

The preservation of social consensus and the institutional backbones of trade unions have helped in accommodating the pressures for change in labour market regulation (Rhodes, 2001). The social consensus rewarded the economic and political elites also in their European policies. Finland was among the first ones to join the EU (1995) as well as the EMU (1999) was possible with the support of union leaders. Regini (2000) suggests that it is the most peripheral European economies or the ones most beset by the problems of monetary convergence that have given a greater priority to the stipulation of social pacts as symbols of national endeavour to achieve a goal that precludes internal divisions. Regarding Finland, this point seems very adequate.

### **The Initiative of Employers – the European Landscape**

Normal working time is one of the deeply embedded industrial institutions. As such it has been declared an obstacle of adaptation to the post-industrial global economy. The breakthrough of flexibility changed the European working time agenda from the mid-1980s onwards. In the early 1980s, employers conquered the idea of flexibility and acquired a kind of hegemony for it.

This new trend focussed on tailoring working times to the needs of the firm. During the 1980s, a zone of compromises was found between the reduction and flexibilisation of the working time. The resistance of unions was eroded by high unemployment, diminishing bargaining power, the loss of members, the diversification of wage earners and their time needs, as well as compromises between reduction and flexibility (Boulin, 1998).

As the Eiro Report states,

“The offensive on the introduction of flexibility has been launched earlier or later, vigorously or not so vigorously, according to the constraints imposed on companies by law and collective agreements in this area, and depending on the pace at which new forms of flexible organisation (such as “just in time” or “lean production”) have caught on. In Greece and Portugal, for example, the predominance of traditional forms of organisation of production explains why the issue of flexibility in working time has only recently surfaced and is still only relevant on a small scale.” (The Flexibility of Working Time in Europe, 1998, 3)



On the one hand, increased flexibility has been viewed as a means to reduce costs. On the other hand, flexibility has also been seen as a part of more wide-reaching changes, which are designed to increase the capacity of firms to innovate and adapt to rapid changes in product markets – as a part of the more modern production concepts (OECD Employment Outlook, 1998). In spite of many institutional and political factors which explain the variation in the timing of flexibilisation, the economic crisis seems to have played an indisputable role in introducing flexibility.

The role of government and working time legislation varies from one EU country to another. In general, the working time laws were revised throughout the 1980s and 1990s. The regulation on working times was loosened, and the laws allowed for longer daily and weekly hours than before, more possibilities to engage in Saturday and Sunday work, as well as in night shift work for women and the use of longer equalisation periods. Flexibility has also been increased by allowing deviation from laws by industry-level or local bargaining. The laws were coordinated between the governments of the EU countries as part of European economic integration and the strategy of gaining economic strength in a situation in which European labour markets were – and continue to be – accused of subscribing to old-fashioned rigidities (Bosch, 1993).

The 1990s witnessed a more united Western Europe. In this light it might be a bit astonishing that in spite of the quite uniform breakthrough of some practices in flexibility, an increasing differentiation in working time policies between countries took place in the 90s (Boulin, 1998). This reveals something about the complex national contexts of working times and working time policies, as well the afore-mentioned power of path dependencies in labour market regimes (Wood, 2001).

### **Changing Institutions or Behaviour?**

As stated earlier, the labour market reform in Finland has been incremental. Yet, something has happened in Finland, too. Working times are a good example of the two-frontier restructuring of Finnish working life. By “two-frontier” restructuring we refer firstly to the reforming of those institutions and rules that regulate working life, and second, to the actual changes taking place in enterprises and organisations. There are good reasons for distinguishing between the two because the relationship between reforming the institutions and changing behaviours is in no way straightforward.

The actual change might, in principle, be either more modest than the rules and agreements imply, or on the other hand, wider and deeper. In the first case, the social continuities in working time patterns were even stronger than the

changing norms, and in the second case, the working time regulation, law and collective agreements were no longer able to dictate the actual hours and patterns. In this case, the working times were escaping from the grip of rules, the regulated working times were going to be displaced by more local, differentiated and varying working times.

Theoretical literature tends to suggest the latter scenario. Modernisation theories propose that the new flexible capitalism or global network society breaks the old industrial time-space relations (Castells, 1997), routines (Sennett, 1988), or even the whole category of working time. The four temporal arrangements guaranteeing time off from work, that is, free evenings, weekends, annual holidays and retirement, are eroding (Garhammer, 1999).

Is that really so? Are regular and regulated working times actually being displaced by a time mosaic? In this article we ask what happened to Finnish working times, and how they have been adapted to the globalising economy. Do they perhaps have some role in the economic success of Finland, in the building of a post-recession economic and political regime? We will make a distinction between the reformulation of working time institutions – flexibilisation of rules – and actual working times, and will look at these subjects in this order.

### **Negotiating Flexibility – the Breakthrough of 1993**

#### *The Economic Crisis Breaks the Dam*

When compared to other countries in the Western world, the 1980s were an economically and politically deviant decade in Finland. The economic situation was reasonably prosperous and at the end of the 1980s, after the liberation of capital movements, a debt-induced boom with full employment took place. In working life the decade was one of employee-friendly and employee-induced reforms. On the other hand, deepening integration and market orientation was taking place, and the afore-mentioned four-step transformation was inaugurated.

The 1980s were marked by a general and powerful thrust toward decentralisation of industrial relations, which was quite evident in, for example, Sweden. In Finland the employers also demanded more options and power at the local level, to negotiations within firms. It was in the 1990s, during the recession, that this employers' decentralisation strategy became successful (Nieminen, 1999).

The flexibility of working times had already come up in the 1970s. The employers used available arenas to redefine the working time issue as a ques-

tion of working time arrangements and patterns as opposed to one of merely shortening the hours. The employers also brought their flexibility demands to the labour market negotiations. A loud collision took place in the collective bargaining of 1986 when the rank and file union members rejected the demand for flexibility, contrary to the negotiation result. Flexibility had been assigned a very negative label and tone. The employers did not aggravate the dispute. They believed that time would work in their favour, as it indeed did. As far as we know, Finland is the only country in Europe where the standard working time was reduced in the 1980s, without concomitant flexibilisation.

Even though trade unions rejected flexibility in connection with the working time reduction, the late 1980s witnessed a change. Some industry-level agreements introduced local bargaining regarding working times to the Finnish labour markets. The decisive breakthrough in local bargaining, however, had already taken place between social partners in income policy bargaining in the autumn of 1993, the deepest year of the recession, and in the joint recommendation of the central organisations. Although the social partners could not reach a consensus within the committee preparing the new working time law, they took the initiative in bipartite agreements. In the climate of deep recession, any agreement on local bargaining, where the most radical demands of the employers had been withdrawn, seemed to be a partial victory for the unions.

In the bargaining rounds of 1993 and 1994 parties added opening clauses into the collective agreements. The opening clauses in industry-level collective agreements allow bargaining at work-place level in some issues, within certain limits set by industry-level collective agreements. Thus, the options of bargaining at the workplace level vary according to the branch of industry. If the parties at the local level are unable to make a contract, the national collective agreement will be applied.

The agreement reached regarding local bargaining channelled the employers' demands about decentralising labour relations. In fact, in the mid-1990s, the confederations of Finnish employer associations changed their stance toward decentralisation from a principal and ideological one toward a pragmatic one (Niemelä, 1999). Even if the hard-core issues of industrial relations, such as wages, are not negotiated at the local level, this still leaves a lot of initiatives and interactions to be handled locally, most importantly the working times (Nieminen, 1999; Julkunen and Nätti, 1999).

#### *With Negotiated Flexibility Towards the (G)localisation of Working Times*

Even the new working time legislation of 1996 contains detailed rules regarding every aspect of the working time (Työaika, Työaikelain uudistus, 1996). The

maximums permitted by law are 9 hours a day, 45 hours a week, with an equalisation period of four weeks. In accordance with the unions' demands, the law in itself does not leave room for much flexibility. Instead, as said, the law gives social partners at the national sector level the right to agree about broader flexibilities, thus enabling them to regulate the limits of local bargaining. As such, the law supports the national negotiation system.

Since 1993–94, the possibilities for local bargaining have been broadened. In fact, the change in the rules has been extremely rapid. Many branches have agreed that the number of daily working hours can rise to 10 or 12 hours, so that the number of hours is equalised to the average (usually 36–39 weekly hours) over the period of one year or six months. The national collective agreements in different sectors vary with regard to the orders concerning standard weekly and daily working hours, the maximum number of daily working hours, the equalisation period of average hours, days off and annual vacation.

For example, the normal annual working time in hours (in 1997 agreements) varies between 1529 (some services) and 1746 (transport). The maximum number of daily working hours varies between 9, 10, and 12 hours, while some sectors have no daily maximum (blue-collar metal industries, public administration and services). The equalisation period is typically 12 months; in this sense, working time has become annualised. There are some sectors with no industry-level modifications to the law. We suppose that these cases, such as the food industry, can be explained by both the political tradition of the union and the peculiarities of the branch.

It seems that the employers have succeeded quite well in their aspiration to expand local bargaining. Employer organisations refer to the widening of local bargaining with satisfaction. In a quite comprehensive and recent study about the private sector made by Jukka Niemelä (1999), a great majority (86 per cent) of the organisations covered in the survey, which included all sizes of private enterprises, utilised local agreements in the establishment of working time norms. In the public sector the local agreements are less common (Antila, 1998). Still, it is true that legislation and national collective agreements offer a broader framework for local agreements than has been the case thus far.

In general, the flexibilisation of working times in Finland might tell about the advantages of high unionisation, established local bargaining and a network of shop stewards in the diffusion of modern practices. This is a paradoxical conclusion. In neo-liberal assumptions, flexibility and modernisation are linked to the absence of unions from workplaces. However, if local unions believe that the success of the enterprise means jobs and equity, and thus commit to the success of the enterprise, they provide an established channel for introducing renewals and acquiring consent.

*Recession, Modernisation and Path-Dependency*

The deep recession and the concomitant crisis consciousness accelerated the restructuration and flexibilisation processes in Finland. In regard to working times, the recession was decisive in the breakthrough of flexibility. This is true both at the collective and plant levels (Liikanen, 1998). The early 1990s can be characterised as a crucial step in the redefinition of the working time, not only or mainly as a matter of distribution, but as a matter of productivity and the success of a firm. Although the recession was decisive in reaching a compromise between social partners, other long-term modernisation changes, such as individualisation, obviously matter.

In spite of the perhaps slow or uneven implementation, working times are going to become localised, or rather “(g)localised”. The tailoring of working times to the needs of the firms, and thus, their adaptation to a global competition economy, is a global trend which, however, presupposes local accomplishment. The new “best practices” must be embedded within local social relations. Thus, this trend cannot occur suddenly, but rather must take place in steps, pioneered by the most modern branches and firms.

However, throughout these “hanging by a thread”-years, Finland sustained its basic model of being a consensus-based and negotiation-based society. This applied type of decentralisation does not mean a dismantling of centralised industrial relations, but instead decentralisation proceeds within the framework of a centralised industrial-relations system. National collective agreements form a central element of Finnish labour market institutions, and this institutional continuity was strong even during the economic and social crisis.

Thus, the Finnish case neatly fits such notions as organised or centrally coordinated decentralisation, as well as negotiated flexibilisation (Niemelä, 1999; Nieminen, 1999; Regini, 2000). Steward Wood (2001) shows on a more general level, using the examples of Germany, the United Kingdom and Sweden, that labour market regimes in the late 1990s remained distinct in the ways that demonstrate profound continuities with their “golden age” incarnations. Obviously, the established ways of coordinating economy and industrial relations gave increasing returns, strengthening the paths chosen in the 1960s.

## Experimenting with Work Sharing in the Context of Mass Unemployment

### *The Finnish Approach*

The idea of work sharing – that is, of reducing the working time as a cure for unemployment to create or save jobs – is as old as unemployment. In better economic times the idea loses its actuality, in worse economic times it always returns. In the early 1990s the once radical idea of left-solidarity was being investigated with new respectability across Europe (Bastian 1994), and especially in France, Germany, Belgium, and Italy (Taddei, 1999), that is in countries with Catholic social ethics and a separate Christian or Christian-influenced national union confederation (Compston, 1997), and a general inclination to react to unemployment by restricting the supply of labour force.

We suppose that the two ideological streams, solidarity-based sharing of work and economic incentives to work, collided in the 1990s. This round was certainly won by the supply-centred employment policy focussing on eliminating incentive traps and activating people from “welfare to work”, a new employment-centred orthodoxy (Jordan, 1998). At the beginning of 2000 France is a “lone rider” in its confidence in modernising the working life and relieving unemployment via shorter working times.

Finland is a country where the idea of work sharing, inspired by the continental example, aroused a short-lived interest. The rise of unemployment in a few years from 3–4 per cent to an unbelievable level of 18–19 per cent gave rise to the desire to create a more fair society by sharing work (in detail, Julkunen and Nätti, 1997). For example, the Archbishop of the Lutheran Church in his ten theses regarding work, unemployment and human dignity (13 October 1997) made an appeal on behalf of work sharing.

However, towards the end of the 1990s the “social call” for work sharing was over in Finland. The idea never made its way through the frontier of employer organisations and economic expertise. The employers had no reason to compromise. They had received the flexibility they needed in collective bargaining in the early 1990s and in the law that was passed in 1996. The central unions were already co-opted in bipartite policies of enhancing varying working time patterns. We suppose that at least in some branches, such as the manufacturing industry, a coalition of social partners was born that shared a common interest of finding the most modern, best practices of work organisation, which did not include the reduction of hours. In addition, there was no such economic expertise available that would have destabilised or challenged the frontier of economic power and expertise.

Of course, the resistance by employers and economists is not the only explanation for the rejection of the idea of work sharing. In the end, among the rank and file union members and citizens, many other questions (concerning wages, social security, taxation, work security, the right to full-time work, the desire to work more hours for more money) seemed to be more important than shortening the working time. In addition, the unions had increasing difficulties to find common aims in working time questions because of the growing heterogeneity of wage earners.

In Finland, even the issue of gender equity turned against work sharing. The prevalent concept of equality prefers sexually undivided times, both at work and at home. Mutari and Figart (2001) include Finland in a “solidaristic gender-equity work time regime” which avoids gendered flexibility strategies, combining low rates of overtime for men with relatively few married women working part-time. Shorter working times for women, which is the feasible consequence of all options to shortened hours, is a threat for gender equity.

When all is said and done, the solidaristic ideology of work sharing did not have enough resonance in Finland. Instead, the competing ideology of a high employment rate, work incentives and activation received strong support among the economic, political and administrative elites. Work sharing is seen as a doctrine of working less, not as a possibility for a greater number of people to work. Like Gösta Esping-Andersen (1999, 180), the Finnish elite is convinced that “work sharing, as currently proposed, is accordingly dangerous and counterproductive. Work creates work; less work creates less work.”

#### *Experimenting and Innovating New Working Time Models*

However, during a short period, the idea of work sharing received so much public attention that the central political, administrative and union actors and elites were forced to take some initiatives. In 1994–1998 some new innovations (part-time allowance, long leaves of absence) were implemented, which among other aims served the idea of work sharing. In addition, the six-plus-six model, a special Finnish version of reducing and reorganising working times (RRWT), rose to the working time agenda. We need to ask which societal questions these innovations and experiments were responding to, and which were the preconditions of their acceptance. We also ask whether they were a temporary relief to the deepest crises or long-living innovations.

*Part-Time Pay Supplement*

Finns engage less in part-time work than the European average. Unions see part-time as a source of low incomes and its gendered use as a source of gender inequality. The incredibly high level of unemployment led to an innovation that can hardly be imagined outside the Nordic countries, that is the implementation of temporary, partly compensated part-time work.

Subsidised part-time work is a part of the government employment policies. According to this scheme, a full-time worker who shifts to part-time is entitled to receive compensation from the public employment funds, provided that an unemployed person is employed for the other part of the job. The compensation is about half of the income loss, on average 2,200 FIM (370 euros). In practice, the net income of the work-sharer reaches 80–90 per cent of the full-time level (see Julkunen and Nätti, 1999, 101). The duration of the part-time contract can range anywhere between 3 and 12 months. The part-time substitute receives only the usual part-time wage.

From a modest start (1994) the popularity of the scheme increased, and it turned out to serve especially women in the public health and social services. Nine of ten users were women, as were the vast majority of substitutes. The users were older than the substitutes, and thus, middle-aged women with a stable work career shared their work with younger women with unstable careers. The motives of those moving temporarily to part-time are individualistic – time for oneself, family, studies, and hobbies, and relief from the workload and work pressure.

To a full-timer a subsidised part-time job is some kind of luxury, “good” part-time. To a substitute the economic situation is not so good. On the other hand, even temporary jobs create connections to organisations and maintain one’s skills. The scheme can also benefit the organisation: the tired full-timers get more rest and the new – and younger – recruits bring with them new ideas.

Since the beginning of 2000, the conditions of the scheme and the reserved financial resources have been tightened. As a consequence, the number of people using the part-time pay supplement has decreased. At the annual level, during 1999, 9,500 employees began to use the part-time pay supplement, whereas in 2000, the corresponding figure was 6 400. During the whole period (1994–2000) 55,000 employees have used the part-time pay supplement system, and the same number of unemployed persons have received a part-time or temporary job. In 1999 the scheme brought temporary relief to 4 per cent of the unemployed.



*Part-Time Retirement Scheme*

Another way to foster part-time work was the revision of the part-time retirement scheme implemented in 1994 and 1998. The part-time pension was introduced in 1987, but the use of this opportunity was quite negligible. In 1994 the age limit was lowered from 60 to 58 years and other conditions, such as the compensation rate and acceptance of part-time pensions as income which accumulates into the old-age pension fund, were improved. In 1998 the age limit was lowered further, now to 56 years, on an experimental basis.

After these decisions the popularity of the combination of part-time pension and part-time work has multiplied in four years, from about 7,000 in 1997 to 26,000 in 2001 (HS 14 April 2001). Employer organisations and the ministry of finance consider this a problem, and the revision of the scheme to become less attractive rises time after time on the political agenda. There is no definite answer to the question of whether part-time pension means “more or less work”. The economic rationale, of course, is to keep ageing people longer in working life, even if it is on a part-time basis.

The subsidised part-time work causes conflicts and feelings of unfairness at the workplaces because the employer is not obligated to recruit a substitute for the withdrawn work contribution. In practice, only one third of the firms recruited a new employee to replace the employee on a part-time pension. Furthermore, in the firms planning reduction of personnel, the shift to part-time pension can alleviate the need of dismissal (Takala, 2001).

*Long Leave: Job Alternation Leave*

Another new subsidised scheme was a long leave scheme (job alternation leave), designed after the Danish and Belgian examples and introduced in 1996, first as a temporary experiment (1996–97), but continued currently until the end of 2003. The scheme provides employees a freely available, partly compensated break (3–12 months) from work, and unemployed substitutes get a temporary job with normal working conditions.

The persons on leave are paid a benefit to compensate partially for the loss of earnings. The compensation is paid mostly by the unemployment funds managed by the unions. The compensation is defined as a certain proportion of the unemployment benefit: first 60 per cent, and since 1998, 70 per cent. In practice, the average monthly compensation is about one third of the earlier full-time income. The characteristics of the users, substitutes and employers are quite similar to the case of part-time pay supplements. This scheme has also been mostly exploited by women (70 per cent) and public sector employees (60

per cent). According to our follow-up study, the return to work after the leave was easy. Most users (90 per cent) would like to take another leave sometime later. The main problem among those who utilised the leave seemed to be the decrease of earnings. For the substitutes, the substitution period is one fixed-term job in a longer chain, or sometimes it promotes placement to open labour markets. As compared to other forms of subsidised employment, the results are quite good (Nätti, 1999).

The popularity of the job alternation leave has been growing. During 1996, 5,500 employees started their job alternation leave period, during 2000, the number was 12,400 employees. During the whole period (1996–2000) 42,500 employees have taken the leave, and the same number of unemployed persons have received a full-time, temporary job. Thus, the annual employment effect is larger than in the part-time pay supplement scheme.

Thus far trade unions have been committed to the system and have defended its continuity against the critical tones of employer organisations. We contend that the continuation of the scheme and the improvement of the compensation rate since the beginning of 1998 was one of the small concessions that the employers viewed as wise, in order to be able to control the scene of working times and to channel the demands for work sharing into a bearable form. However, the scheme is on the bargaining agenda no later than in 2002.

### *Six-Hour Shift*

During the recession and mass unemployment a Finnish idea (introduced in 1967 by a professor in sociology) regarding a two-shift society, six-plus-six shifts of working time, emerged again in public discussions. This fascinating idea emerges in Finland whenever the reduction of hours actualises for one reason or another. As the father of the idea, Paavo Seppänen thought this new organisation of time would combine effectiveness with the human dimension. The long operation time of productive facilities (12 hours) and the more intensive work for a shorter working day (six hours) would guarantee effectiveness. In addition, the six-hour shift is the new working time pattern in which the greatest hopes of new employment are placed.

The programme of the 1995–1999 government included experiments with the six-plus-six model. Altogether, there were experiments in 19 municipalities, 12 private firms and five employment offices. Some of these experiments were evaluated by our research group (see Anttila, 1997, Anttila and Tyrväinen, 1999, Julkunen and Nätti, 1999).

In eight of the private firms studied, different kinds of six-hour shifts were applied. Most of the firms were medium-sized and operated in the metal or

chemical industry. Experiments were small in size and were carried out on the shop floor in machine-bound work. Experiments were based on local agreements. In most cases, the wages remained the same. On the other hand, the abolition of extra holidays (“Pekkas-days”) and breaks and a faster working tempo resulted in the effective working time being almost the same during the six hours as it was previously. In all cases the companies that were studied benefited in some way: decreased production costs per unit, increased productivity per hour (up to 42 per cent), better quality, decreased absenteeism, faster delivery, and increased flexibility. Thus, in machine-bound work, the six-hour day pays itself.

However, the small number of enterprises that tested this arrangement reveals quite accurately the very restricted prevalence of the pattern. Even in these small or medium-sized, mainly manufacturing enterprises the use of this arrangement was limited, carried out on the shop floor in machine-bound work, including typically just one or two production lines (10–20 workers). In spite of the attractiveness of this scheme, it is not spreading. One, and only one, reason is the principal resistance of employer organisations towards a six-hour day.

#### *Local Experiments in Municipalities*

The fifth scheme examined here are local experiments in municipalities with shorter subsidised hours. The main purpose was to adopt the above-mentioned two-shift pattern, however, other arrangements were allowed, too. In the summer of 1996, working time experiments in municipalities became possible through a temporary change (1 July 1996–31 December 1998) in the Employment Act. Unemployed job-seekers could be hired to substitute those full-timers who wished to reduce their working time for a two-year period, while the State covered 50 per cent of the labour costs.

During 1996–98, experiments were carried out in 19 municipalities. Altogether 1300 permanent employees reduced their working hours by 20 per cent on average, so that the average weekly hours were 30. According to the local agreements, the average wage loss was 7 per cent. To compensate for the loss of hours, almost 600 new employees were hired. The part-time substitutes received only the normal part-time wage. The experiments were concentrated in female-dominated health and social services. Typical units were dental care, child day care, home care, and physiotherapy, which are areas where longer opening times are sensible (Anttila and Tyrväinen, 1999).

The benefits of shorter hours were most apparent in the quality of life and well being of employees. Shorter daily hours were particularly favourable regarding the work stress level.

Today the six-hour day, as well as the two-shift time organisation, has disappeared from the public discussion as well as from the bargaining tables. In spite of this meagre policy result, research results revealed some persistent advantages of a shorter day.

#### *Temporary Relief or Lasting Innovations?*

High rates of unemployment and the public pressure toward work sharing were the prime causes behind the government's commitment to working time experiments in the 1990s. What is the fate of these innovations now that mass unemployment has been somewhat alleviated?

All schemes described above represent multiple policies. The (temporary) re-employment of an unemployed person was not the only consideration. Other points used as arguments were education and learning, rehabilitation, maintenance of working abilities and skills, and rest and relief from work overload. Ultimately, these schemes, while allowing "less work", attempted to strengthen work motivations and abilities and postpone retirement needs. However, there is not, and cannot yet be conclusive evidence on whether temporary part-time work or a long leave during one's work career can serve to prevent early retirement.

In addition to these rationales, the new schemes were made possible by their cost neutrality to the public economy, their easy controllability and experimental duration. In these schemes the decision to share one's work and income is made by an individual employee and accepted by the employer who has the role of a gatekeeper. Until now these systems have acted as a relief for those employees, mostly women, who can afford and have enough motivation to take a temporary break for themselves from the ever-intensifying working life. They have promoted the re-employment of the unemployed, and in most cases provided the organisations with some benefits, too.

In spite of these conditions, the future of these schemes is somewhat fragile. Unemployment policies are oriented towards a supply-centred policy, away from the temporary and compensated placement of the unemployed. In addition, these schemes don't serve the most excluded long-term unemployed, even though re-employment of the short-term unemployed reduces the risk of long-term unemployment. Under the challenge of employer organisations, the other motives, besides employing the unemployed, are perhaps not strong enough to sustain these systems.

## Working Time Realities

### *Adaptation of Working Times to Recession and Revival*

In spite of the dramatic economic and social changes and the restructuring of working time institutions, a statistical portrait of working times mainly indicates continuity (Table 1). However, the impact of recession (1991–94) can be traced even if the changes are slow or small. The hours worked were reduced by many mechanisms. Shortened work weeks (1–4 days) became more common, second jobs became more rare, and the number of employees working overtime became smaller. Overtime hours decreased less, and thus, overtime was concentrated to fewer persons. All in all, the depression reduced working hours quite equally in all employee groups. Even if working times decreased slightly, the unemployment rate jumped from 3 per cent to 18 per cent. This means that the Finnish society was far from equally sharing the shorter total working time.

National production turned to growth in 1994, and so did the working times. Although the differences are again small, they still reveal some trends. The proportion of those employees whose regular hours are longer than agreed (41+) nearly doubled from 1995 to 1998. The number of employees working extra long hours is higher, but their proportion shows no other clear trend than the adaptation to short-term business cycles.

The average hours – regular as well as actual working hours – reveal a growing gender difference. Finland is still the EU country that has the smallest gender gap in working hours. The slight polarisation of regular working times that Table 1 reveals, that is, the increase of both the shortest and the longest working times, indicates growing gender differentiation. However, the usual Finnish working hours have a noticeable peak around the agreed hours. Women's hours as well as men's cluster around 37–39 hours weekly, that is, around the centrally agreed hours. The picture is far away from the British fragmentation of working times (see Mutari and Figart, 2001).

**Table 1.** The length of working time of wage and salary earners in 1986–1998 according to annual labour force surveys

Length of working time	1986	1989	1991	1993	1995	1996	1997	1998
Regular working hours per week (distribution, %)								
1-19	3.7	3.5	3.4	3.5	3.3	3.8	3.4	4.4
20-29	3.6	3.7	3.6	4.1	4.8	3.7	3.6	3.6
30-34	4.1	3.8	4.6	5.5	5.6	6.8	6.1	5.8
35-39	28.0	71.7	70.8	68.4	52.6	50.5	50.7	44.8
40	54.0	11.8	11.5	12.2	25.4	26.2	25.6	29.3
41+	5.9	4.6	5.3	5.1	4.7	5.7	7.2	8.8
Unknown	0.7	0.8	0.9	1.1	3.6	3.3	3.2	3.4
Actual working hours per week (distribution, %)								
1-19	5.7	8.0	6.4	6.5	7.7	7.5	6.9	7.7
20-29	5.8	7.6	9.4	10.3	10.7	12.2	6.0	7.7
30-34	6.6	17.4	18.8	21.6	20.1	17.7	8.2	21.5
35-39	19.7	27.0	28.7	26.5	24.1	24.7	34.1	24.3
40	40.6	21.1	20.5	17.4	18.2	19.6	23.9	21.0
41+	20.8	18.9	16.2	17.8	17.4	17.5	20.3	17.0
Unknown	0.7	0.0	0.0	0.0	1.7	0.7	0.6	0.8
Regular working hours per week (average hours)								
- both genders	37.7	36.9	36.8	36.7	36.9	37.3	37.0	37.2
- men	38.8	37.9	37.8	37.8	37.2	38.7	38.5	39.0
- women	36.5	36.0	35.8	35.6	35.8	36.1	35.6	35.4
Actual working hours per week (average hours)								
- both genders	38.2	36.3	35.9	35.6	35.5	35.6	37.4	35.9
- men	39.8	37.9	37.4	37.1	37.7	37.8	39.6	38.0
- women	36.6	34.6	34.3	34.1	33.6	33.6	35.5	33.7
Worked in second job (during the survey week, %)	7.5	8.3	7.1	5.5	3.3	3.3	4.1	3.4
Overtime (during the survey week, %)	11.5	13.1	9	8.3				
Overtime hours	8.2	7.9	7.3	7.7				
Paid overtime (during the survey week, %)					10.6	8.7	8.6	8.3
Unpaid overtime (during the survey week, %)					8.1	6.6	6.2	4.5
Paid overtime hours					8.4	8	8.1	8.3
Unpaid overtime hours					8.1	8.8	8	8.4

Source: Annual LFS 1986, 1989, 1991, 1993, 1995, 1996, 1997 and 1998.

\* Survey on working conditions 1997.

.. = too few cases ; - = data is missing

Note: Regular working hours per week include regular overtime hours since 1997.

*Exploiting the New Possibilities*

In the 1990s the employers' demand for decentralisation of industrial relations was channelled to agreements that widened the possibilities of local, company-level bargaining. In practice, working times have been the most common matter handled at this level. It seems that legislation and national collective agreements offer a broader framework for local agreements than has been the case before.

However, it must be emphasised that the willingness and ability to use new options at the firm level is closely connected to the all over modernisation and flexibilisation of the firm (Antila, 1998; Antila and Ylöstalo, 1999; Helin, 1999; Niemelä, 1999). The exploitation of local agreements is strongly associated with more modern and flexible action strategies. It seems that the modern, proactive firms have the room to manoeuvre which they need for their success stories – both mentally and institutionally. (Antila and Ylöstalo, 1999.)

“Through local agreements it has been possible to create solutions which serve the functional demands of the work place, and to which the personnel is ready to commit. For their part, new, often gradually implemented working time solutions have increased production, improved service and strengthened competitiveness.” (Työaikaraportti, 1998, 11.)

In a study concerning private sector workplaces, the researchers (Antila 1998, Antila and Ylöstalo, 1999) formed “a cluster of the most successful workplaces”, a heterogeneous group including workplaces of all sizes in all lines of business. Among other things, they were characterised by the use of individually tailored working times. On the other hand, a prototype of a successful – or proactive – enterprise was impossible to present, and enterprises were able to succeed with different working time arrangements.

In practice, modern firms exploit the uneven change in individual attitudes (Liikanen, 1998). While satisfying the complicated time needs of a firm, the differentiated individual readiness is utilised, thus avoiding pure compulsion. The firm recognises the individual readiness in different life situations and different work orientations to engage in shift work, to lengthen the work day, to take responsibility for the needs of customers, to commit to the success of the firm or to promote one's own career.

*Gradual Retreat of the Normal Workday?*

It is impossible to give a statistical picture of the diffusion of flexible or varying working times in Finland. The same holds true for the entire EU region. Countries provide only incomplete, disparate and piecemeal information on the procession or implementation of the flexible organisation of working time (Flexibility of Working Times in Europe, 1998).

**Table 2.** The working time arrangements of wage and salary earners in 1986–1997 according to annual labour force surveys

Working time arrangements	1986	1989	1991	1993	1995	1996	1997	1998
Worked on Saturday (during the survey week, %)	18	18.4	16.2	20	17	18.9	16.6	17.3
Worked on Sunday (during the survey week, %)	11.9	12.5	10.8	12.6	12.1	13	10	10.6
Shift work					23.6	22.7	23.1	24.1
Evening work (18-22) during the last 4 weeks					23.9	22.5	23.3	24.1
- regularly					26.0	23.5	23.2	24.2
- occasionally								
Night work (22-06) during the last 4 weeks					10.4	9.7	9.0	9.9
- regularly					12.1	9.9	8.9	8.1
- occasionally								
Work at home during the last 4 weeks					16.2	16.5	14.9	16.1
Part-time work (1-29 hours)	7.3	7.2	7.2	7.9	8	8.3	8.7	9.1
Part-time work (subjective classification)	-	9.4	9.7	11.0	11.4	11.2	10.6	11.1
Working time arrangement (%)							*	
- regular daytime work (06-18)	75.9	74.0	76.0	72.7			70.0	
- regular evening work (<21)	2.5	2.1	1.9	2.0			1.3	
- regular night work (21-06)	0.4	0.7	0.9	0.5			1.0	
- regular morning work (<06)	0.5	0.7	0.5	0.5			-	
- two shifts	8.6	10.9	8.9	10.6			9.9	
- 3 shifts	6.2	5.9	5.6	7.3			6.8	
- weekend work	..	0.4	0.5	0.5			0.3	
- some other type	5.4	5.0	5.9	5.5			10.7	
- can't say	0.5	0.4	0.2	0.3			0.0	

Source: Annual LFS 1986, 1989, 1991, 1993, 1995, 1996, 1997 and 1998.

\* Survey on working conditions 1997.

.. = too few cases ; - = data is missing

Note: Regular working hours per week include regular overtime hours since 1997.



We contend that it is difficult to even determine which working time arrangements are “flexible”, “new” or “innovative” and which are not. In the everyday functioning of enterprises, the naming of working time patterns is often impossible. In addition, while studying advanced industrial workplaces, Liikanen (1998) found that shift work and overtime work – very traditional working time patterns – were the most significant means for flexibility.

The majority of wage earners work a regular daytime schedule. In light of Table 2, there are no clear or noticeable trends in shift, evening or night work. The slight trends still show a decrease in the share of those working a regular daytime schedule. The sudden doubling of those working “some other type” might be an interesting detail about the new irregular working time patterns, which cannot be put into any conventional category. In international comparison, according to the European Labour Force Survey (1997), evening, night, shift and Sunday work were almost twice as common in Finland as the EU average (see Julkunen and Nätti, 1999, 40).

#### *Short and Irregular Hours*

Part-time and temporary employment are means of adapting business both to regular – daily, weekly or seasonal – and to irregular, unpredictable fluctuations in demand. In addition, while providing “just-in-time” work, they are also important means of reducing costs. From the point of view of employees, these forms of employment are often delineated as untypical or precarious. Indeed, they often shift the costs or uncertainties from the enterprise to the employee, even though part-time work in Finland is mainly regulated and protected according to the same rules as full-time work.

In post-industrial working life all kinds of precarious, uncertain and risky forms of work are predicted to boost productivity. Ulrich Beck (2000) speaks about the political economy of insecurity, and argues that stable full-time employment is going to be the fate or advantage of a small minority. On the supply side, this transformation is seen to go hand in hand with the erosion of the male breadwinner model, together with stable male employment and the entrance of wives and students into the labour force (Rubery et al., 1998).

At the beginning of the 1990s, part-time work in Finland was infrequent when compared to the European average. The Finnish women integrated into the labour force by working full-time and earning full (female) wages. However, temporary work was quite usual, and the traditional pattern was male dominated (in agriculture, forestry, and construction). The recession years in Finland witnessed, besides the mounting unemployment, a certain shift towards more untypical or precarious employment relationships. First and foremost, the

growing untypical employment was attributed to the young newcomers to the labour market, whose labour conditions changed quite drastically.

#### *Part-Time Work*

In Finnish labour force surveys part-time employees were earlier defined as persons who (normally) work less than 30 hours a week. Since 1995, part-time employees are persons who report that they work part-time (as in the EU labour force survey). In addition to this modification in definition, the general picture is quite clear: the proportion of part-time employment increased slightly in the 1990s, from 9 per cent to 12 per cent, for women from 13 per cent to 17 per cent. In international comparisons, the proportion of part-time employment is still low, especially among women. In 1999, the EU average for women was 34 per cent (Employment in Europe 2000).

Part-time work is gendered, although less so in Finland than on average in Europe. During the 1990s part-time work expanded especially in the youngest age groups. For men, part-time work is a temporary way of entering and leaving the labour market. For women, part-time employment is a more stable way of remaining in the labour market. However, female and male part-timers are mainly found in the same industries, i.e. in services, retail trade, and financing. This concentration of part-time work in certain industries indicates that the growth of part-time work has taken place according to the interests of employers, while at the same time serving the needs of especially students, who increasingly work in addition to their studies.

Even though part-time work serves the needs of some groups, its nature in the 1990s became more involuntary. In the mid-1980s most part-timers worked voluntarily on a part-time basis, preferring this form of employment. The most common reasons for part-time work were childcare (among women) and studying (among men) (Nätti, 1997). During the 1990s, however, the reasons for part-time work changed: in 1997, almost half of the part-timers mentioned a lack of full-time work (46 per cent of female and 41 per cent of male part-timers). Thus, involuntary part-time work, defined as the inability to find a full-time job, seems to be closely linked to the high unemployment rate and regional disparities in employment supply and demand.

#### *Temporary Employment*

In Finnish labour force surveys the attribution of temporary status depends upon an individual's own perception of his or her employment position. The

proportion of temporary employment in Finland increased from 15 per cent in 1990 to 18 per cent in 1997. Since then its proportion has slightly decreased (16). Compared to most other EU countries, the proportion of temporary employment is larger in Finland (the EU average was 13 per cent in 1999).

Temporary work is more common among Finnish female (20 per cent) than male (13 per cent) wage and salary earners, although the gender difference is not as overwhelming as in part-time work. This is mainly because temporary work is also quite common in male-dominated industries (agriculture, forestry, construction, and some manufacturing industries). However, in the 1990s some feminisation of temporary employment took place.

Thus, most temporary workers are women (60 per cent in 2000). Besides gender, age typifies workers with temporary contracts: more than one third of all 15–29-year-old workers in Finland have temporary contracts (43 per cent of female workers, 33 per cent of male workers in 1997). This is partly due to the fact that many young people combine studying and working, or are job-shopping before settling into a more permanent situation. Furthermore, the expansion of government programmes to help young unemployed people is also a factor accounting for the over-representation of young people among temporary workers.

As already stated above, in the 1990s some modernisation, post-industrialisation and feminisation of temporary work took place. The proportion of workers in temporary employment is now larger in the feminine public sector (in 2000, 70 per cent of employees in the public sector were women) than in the private sector. While the traditional pattern concentrates on less skilled male jobs, new temporary work applies to skilled female occupations in the public sector (e.g. teaching, health care and social work). Consequently, temporary work is most common among women in upper white-collar jobs and among men in blue-collar and lower white-collar jobs. It is education in particular that under the conditions of the 1990s brought women to the scene of temporary employment.

This, in addition to the more insecure employment pattern of the public sector, might have something to do with the discrimination or the worsening labour market position of women in their reproductive and mothering years. Namely, temporary employment is much more common among 30–44-year-old women (20 per cent) than men (11 per cent). Differences between the sexes are less relevant in the older age groups.

Reasons for taking up temporary work have radically changed in the 1990s. In 1990, before the recession, only one out of three temporary workers stated that he or she had been unable to find a permanent job. In 1997, 91 per cent of female and 77 per cent of male temporary workers said that they had not been

able to find a permanent job. Thus, in 1997 most temporary workers can be classified as involuntary temporary workers.

### *Long Hours*

The public discussion in Finland draws a picture about the working times becoming longer and more fragmented in an ungovernable way. People's experiences reflected in the media and other public channels tell about a more dramatic change than the statistics show. In labour force surveys only slight changes in average hours or completed overtime can be observed. In addition, the hours and the proportion of those who work overtime seem to be rather variable, based on business cycles, instead of having a clear trend. If we can believe the official statistics, no proliferation of long hours in the Anglo-Saxon manner has taken place.

Some other surveys with different framing of the questions give a picture that is more in line with the public worries. According to a survey collected by the Occupational Health Institute (Kalimo and Toppinen, 1997), almost two thirds (64 per cent) of employed people aged 24–65 years tell that they work 40 or more hours a week, and one third (33 per cent) claims to work 45 hours or more. One obvious explanation is that Table 1 describes only wage and salary earners' working times, while the survey of the Occupational Health Institute also includes self-employed. The self-employed work longer hours than employees. According to the 1997 labour force survey, 7 per cent of employees regularly worked 45 or more hours a week when compared to 62 per cent of the self-employed and entrepreneurs.

In addition, the divergent results reflect the notion that working time is no longer unambiguous. For a growing minority of employed people, telling how much they usually work is not exact. The borders of workdays are obscure and fluctuating. While the concept of working time may no longer be unambiguous, it is possible that different contexts while collecting the material, as well as different instructions, provide somewhat different results.

Despite the source and the data used, long hours have structural features. They belong to certain occupations, and certain social and gender positions. Besides the self-employed, long hours are most common among highly educated men. In fact, the gender division in working times has increased. After the recession, in 1993–1999, the share of the employed men regularly working 41–50 hours a week has increased from about 8 per cent to 12 per cent. Among employed women, however, the corresponding figure has remained quite stable, at around 6 per cent (Haataja and Nurmi, 2000, 20). As is common

elsewhere in Europe, too, the longer hours apply in particular to upper white-collar men.

What is also true is that this stretching of work hours occurs through unofficial, non-paid overtime, by self-governing employees. Among members of the union of the highly educated, AKAVA, overtime is common: in October 1998, 76 per cent of the members reported having worked overtime, on average about seven hours a week (i.e. one normal working day) (AKAVAn työaikalinjaukset 1999). About half of the employees who reported working overtime also reported that they did not receive any compensation. This was most usual among those working in the state sector (61 per cent).

#### *Working Times in the IT-Sector and Knowledge-Intensive Work*

“Urban legends” tell about young men working in the new, dynamic, attractive tasks and occupations in the information sector, e.g. information technology or multimedia, on their own or in their fellows’ firms, forgetting the conventional life rhythm with divisions between work and private life. Furthermore, the coming of the information society, communication technologies and information-intensive work is predicted to break the industrial divisions between work and non-work (home, leisure) and their defined sites. In the visions of the information society this is seen as an emancipation of the restrictions of the industrial society. Critical tones would emphasise the disintegrating impact of the erosion of old, shared-time rhythms, as well as the stressful demands of new just-in-time availability, even 24 hours a day, across different time zones, as an extreme consequence of new global networking and informatisation (Garhammer, 1999).

The concept of information work is far from unambiguous. However, it is work associated with good education, expertise, autonomy at work and the use of new information and communication technologies. Blom et al. (2000, 200) have evaluated that the share of those doing information work of all wage and salary earners has increased from 12 per cent (in 1988) to 39 per cent (in 2000).

There are many mechanisms that might lengthen the hours especially in information work. This kind of work can be captivating in itself, and is at least partly detachable from certain time and place. The work is carried out by self-regulating experts who have personal responsibility for the result of their work. Some of them make their own career rather than work for an employer; many of them work in dynamic sectors and firms, in key positions.

According to empirical data (Blom et al., 2000; our analysis with the data of work conditions survey), the information workers find their work to be interesting, demanding, and strenuous and to require new learning to sometimes an

unfair extent. The information workers have autonomy regarding their working hours, they can decide their coming and leaving times. They are managed and controlled through results rather than working times. More often than other wage earners they are engaged in doing uncompensated overtime and have difficulties in getting rid of work during free time.

However, our still incomplete and unpublished case studies from the IT-sector and its programming work suggest that the firms invest a lot to keep the working hours as normal as possible. Working times were controlled to keep them within the frames of laws and agreements. The quite autonomous employees chose to work during the standard time, and private life was valued by these mainly young men in their twenties or thirties. The breaking of “normal” was modest, on the average one or two extra hours on Saturday and/or Sunday. Overlong working hours were an exception to be attributed sometimes to organisational pressures, sometimes to personal choices, as by self-employed owners of small firms.

#### *Family and Marriage Dynamics*

Long hours, however, are not only connected to socio-economic factors. As far as the family situation is concerned, married people, both men and women, work longer hours in Finland than the unmarried. Long hours (45+) are most common for married men with children; long hours belong to a settled life and career situation with income pressures. Along with marriage and children, men increase their working time, whereas women do not increase it but, as opposed to many European countries, neither do they seem to reduce it. Short hours (under 30) are associated with youth, working in addition to studying, and with an unsettled career and life situation.

This raises an interesting question about time negotiation within marriages. In Finland, many traits in the labour market position tend to concentrate in the same families, such as inactivity (being outside the labour force in working age), unemployment, and full-time and even longer working hours. The spouse homogamy is obvious, even though there are marriages where only the husband works long hours. It is less common that only the wife works long hours, and thus, a dual-career-marriage seems to be a prerequisite for married women's time-consuming careers.

The conventional approach to the reconciliation of work and family life is to keep women as “mediators” and provide them with maternity and child-care leave, as well as shorter working hours. In Finland, part-time work is not accepted as a general solution to the combination of work and family. Instead, the women adapt in another way. In spite of the high labour force participation

rate of all women, including mothers with children, long maternity, parental and care leaves guarantee that nearly all mothers take care of their children during the first year, and the majority for the first three years (Haataja, 2001). This is happening even though all children under school age are entitled to public day care, and this trend was becoming more common during the 1990s.

Even though the Finns seem to manage their family life with two full-time workers, today's family life and family needs function as a site of resistance towards the more demanding working life. This does not mean only, or even mainly, the tendency to lengthen working times, but more frequent requests for overall mental commitment to working life instead of family or private life (Jallinoja, 2000), the "greedy" nature of careers demanding emotional, never-ending energy (cf. Woodward and Lyon, 2000).

### **Continuities and Breaks**

#### *The Redefinition of the Working Time Agenda*

At first sight, nothing so special has happened in the Finnish working times in spite of the reformulation of institutional rules and deep economic and social crises. This is not surprising. Institutions can be changed only incrementally, and large quantitatively expressed social structures simply cannot be transformed very quickly. Moreover, Ulrich Beck (1998, 20–24) points out that research – or as we would add, statistics – is biased for producing continuities that no more prevail in people's lives or social realities. We suppose that there is some seed of truth in this. However, in outlining trends we are dependent on data produced by statistics and surveys. Because of the stability of large social structures, seemingly small and marginal changes can be interpreted as significant. Leaning on anecdotes told by the media has another bias; keen on early warnings, its mission is to dramatise change, and visionary writers all over are doing this.

Beyond dispute, the most noticeable trait in the Finnish working times in the 1990s was their adaptation to the markets, or tailoring to the firms' needs. The working time agenda was redefined as an issue of production, markets, customers, clients, delivery and going-through times, "best practice" and benchmarking, and less as a question or issue of working terms. This redefinition was acknowledged in the institutionalisation of local bargaining.

Two working time paradigms, old and new, are prevailing side by side (Antila, 1998; Antila and Ylöstalo). The old working time paradigm – high labour market participation with homogenous working times – is gradually crumbling. The new paradigm means differentiation and fragmentation of

working time arrangements and employment relationships. It is still too early to proclaim a major or sudden change. Antila and Ylöstalo believe that “the dam is not breaking but merely leaking”.

Boulin (1998) has suggested some kind of two-step dynamics. When the firms have achieved what they want, two new issues are beginning to play a role in working time policies: first, the development of individual autonomy, distinct from productive flexibility, and second, the implementation of better social organisation, with the main field of application being the organisation of time in cities. There is obviously a lag in employee-induced flexibility, and even in demands for more flexibility. “Industrial” rules and routines are appreciated as protective of human life. Still, it is reasonable to expect that the dissolution of old self-evidences will create requests and space for more active demands regarding choice and autonomy.

### *Employment*

One permanent issue concerning flexibility is employment. What is the consequence of increased flexibility – increasing or decreasing employment? After the recession the employment situation in Finland has improved faster than anywhere else in Europe, which is not so amazing if one remembers that the loss of workplaces was also deeper than anywhere else. Nevertheless, unemployment is still at a high level, about 10 per cent, and the employment rate (67 per cent in 2000) has not reached the pre-recession level (74 per cent in 1990).

By using flexible working time patterns, firms do not aim at increasing their workforce, on the contrary, they attempt to make use of their existing workforce as effectively as possible. Most types of flexibility imply some element of decreasing employment. Allocating working time according to the aspect of just-in-time, or to production load or customer flows decreases the need for labour reserves and full-time work. And so does, of course, the unpaid stretching of hours. On the other hand, the prolongation of operation times, the separation of working and operation times and the implementation of new shifts, which is in Finnish debate the six-plus-six pattern, seem to directly promise new jobs. But as we noticed, the implementation of any version of the six-hour day is very rare.

The promised positive employment effect of flexibility comes indirectly, along with the growth of productivity and the adapting capacity of firms. Employers and mainstream economists, who reject working time reduction as a cure for unemployment, insist that only competitive enterprises can guarantee jobs, and that competitiveness requires more flexibility. The promise of new jobs depends on the overall success of the companies. In this way, the employ-



ment effects of flexible working hours are reminiscent of the effects of other technological and organisational rationalisations.

Enterprise-level evidence (Antila and Ylöstalo, 1999) shows that flexible workplaces tend to avoid adding personnel and reduce personnel as soon as possible, with changing demand and business cycles. As the number of hours increases, flexible workplaces attempt to manage with the personnel they have. Yet, longitudinal examination reveals that in the longer term, flexible workplaces have employed more people than the traditional ones. Flexible firms succeeded so well in the mid-90s that they eventually had to recruit new staff. However, it is impossible to determine the role of flexible working time for their business success.

One conclusion is evident. If anything about the employment trend after the recession – some consider it quite good, some unsatisfactory – is to be attributed to working time reforms or tendencies, it is the adaptation of working times to the needs of the firms – not work sharing or reduction of hours. It is evident that during the next cyclic downturn, when the growth of employment ceases and unemployment figures begin their rise, the next collision will be seen between the demands for more radical neo-liberal reforms to labour market institutions and, perhaps again, the demands for solidaristic work time reduction.

#### *The Limitations of the National Consensus*

We are witnessing a period of transition in which the market is clearly more important than in the past and in which international constraints and influences have increased. But neo-liberal convergence is not the only way of accommodating in a competitive and efficient way. Convergence arguments ignore essential limits on radical deregulatory change in both policies and institutions, such as the efficiency derived from the complex links between systems of regulation and production firms and the path-dependence derived from deeply embedded national systems of law and collective bargaining (Rhodes, 2001).

Finland is an example of concerted adaptation. Still and without doubt, the economic elites, employers, and managers were the decisive agents and policy formulators during the 1990s. The opening of the flexibility deadlock of the 1980s was possible when other agents withdrew or redefined their interests. Crucial to this development was the economic crisis which shook off the old continuities, formalities and securities of the Finnish society. The economic crisis acted predictably according to the theories of restructuration: as a process which imposes new prerequisites for capital accumulation.

The coming of flexible working hours resembles other stories told about Finns: a delayed – but quick – transition. After ten years of visible resistance to flexibility, the employers had achieved what they wanted. At the political and collective level, this is easy to see as an expression of Finnish realism or pragmatism. The passage of negotiated flexibility was a noticeable mental and policy transition, even though actual working times show a lot of continuity.

If the transformation of working times is one-sidedly guided by firms and employers and if the perspective of employers and companies supersedes other perspectives for a long time, this might have negative consequences. First, this perspective might not pay enough attention to the risks of development, the potential fragility of social life and occupational health. Second, seeing working times only as some kind of “business best practice” omits societal and social points of view, or the possibility of using working times as a means for collectively strived social transformation. The preservation of consensual institutions and practices during a radical shift in the balance of power between social partners might prevent extreme neo-liberal fragmentation. However, it does not guarantee balanced social development and the ability to respond to new needs and risks.

## 8 Incentives and Traps of Social Security Systems of Unemployed Households

*Tuukka Arosara*

### Introduction

As the long-term unemployed began to form a substantial third of the unemployed in Finland the unemployment figures did not decrease in the way expected, despite the effort put on active labour market policy and the growing economy, and the issue of economic incentives and their significance in steering people's labour market decisions entered public discussion. Concepts related to these incentives – such as the effective marginal rate of taxation and reservation wage – arose in the public discussion. At the level of individuals, problems in reconciling social income transfers and working (because being employed barely increases the income of a household) were seen as a hindrance to accepting a job. An attempt has been made to get rid of the disincentive effects of the income transfer system by interfering with the level of social benefits and with the grounds on which they are determined.

On the whole, the Finnish social security and income transfer system is complicated, a sum of many different benefits meant for different purposes. There are benefits that one is entitled to if the beneficiary is alive (family allowance, for example). Some benefits are determined by the beneficiary's income and other social benefits (adjusted earnings-related unemployment allowance). The spouse's income and social benefits can affect some of the benefits (means-tested cash labour market support) and there are benefits that are determined by the income and social benefits of the entire household. There are benefits one can receive if certain conditions are satisfied or that have excluding conditions. Factors that determine the role that income transfers have in the income formation are (regardless of employment status) the beneficiary's marital status (married or in common law-marriage), the number of people in the household, and the number of dependants. The Social Insurance Institution alone pays dozens of benefits that have well over a hundred different parts and that are determined by the family structure and situation (Kosunen 1997,106). A household's income is determined not only by earned income, but also, at least partly, by income-independent situational factors (family subsidies and child increases of unemployment allowances) and earnings-related payments

and benefits such as taxes and earnings-related unemployment allowance. In light of this, it is natural that the discussion on the disincentive effects of our income transfer system has been lively all through the 1990's.

The aim of this study is to analyse the allocation of social income transfers and employment incentives in the light of realistic examples. The data consists of the information the author has on the income level and household structure of the people who participated in an employment project. The subjects of the research were working for the municipality as subsidised employees during the research. By examining the income formation of the household during unemployment and subsidised employment, we can verify if the present income transfer and taxation systems are able to deal with different types of households in an equal manner and if they build up incentive traps for individuals and households to seek or not to seek low paid work.

### **Incentives as Explanatory Factors of Labour Market Behaviour**

The idea that the disincentive effects of the high-class social security scheme explain partly the unemployment figures has won popularity in political argumentation in recent years. The main point of this view, emphasising the importance of incentives in employment, is that social benefits in the form of income transfers guarantee a person such a good level of livelihood that accepting a job does not significantly increase the amount of the individual or household's disposable income. In other words, the individual is supposed to choose the level of income guaranteed him/her by unemployment, unemployment benefits and social security benefits instead of him/her actively seeking employment to raise his/her income level. When speaking of incentives, economic rationalism is often taken for granted and considered a dominating feature in the people's labour market decisions. Additionally, the individual is seen as a performer who has the right and power to join the labour market at the income level determined by him/herself. Roger Tarling and Frank Wilkinson (1999, 8) remind us that economic activity can be determined only partly by the individual him/herself and is only partly due to his/her abilities. This is because in addition to the individual's impact, economic, political and social systems also have an impact on economic activity. These economic, political and social systems give birth to and bring about incentives or disincentive effects that increase or restrict the amount and quality of social and economic participation, and consequently, opportunities for earning one's livelihood. What is interesting in Tarling and Wilkinson's work is how they link economic resources to the whole package of things affecting the way a person participates in society; this is often forgotten when talking about incentives.

There are two dimensions in the demands for making the income transfer system more incentive in respect to seeking employment. On the one hand, by raising the subject we criticise the extensive welfare state and claim that it makes people live passively on various benefits (a criticism of the welfare state). On the other hand, with the significance of economic incentives emphasised, unemployment is made a problem of the individual with the unemployed person him/herself being held responsible for his/her unemployment status (labelling ones living on social income transfers). This kind of thinking is too strict in itself, which is why economists as well as other social scientists hold certain reservations to this argument. Matti Heikkilä (1997, 24), for example, has studied the discussion on the disincentive effects and believes that it is based mainly on theoretical and, hence, logical models, but that the empirical evidence is contradictory, to say the least.

A Swedish economist, Assar Lindbeck (1997 and 1999) has dealt with the interaction between economic incentives and social norms in the birth of labour market decisions of households. According to Lindbeck, although the social norms are different in their nature from economic incentives, it might be beneficial to do a comparative study of these two forms of power. The impact that economic incentives have on people's decision-making is being restricted by society's habits, social norms, attitudes and ethics (Lindbeck, 1995). Lindbeck's thoughts are sociologically interesting in that people's labour market decisions are made, not just in proportion to their own economic expectations, but also socially, based on the examples and norms given by others. A similar thought is found as early on as in the definitions of Emile Durkheim and Max Weber, whose research form the classics in sociology, in which they examine people's economic activity in relation to other people and their expectations (Swedberg and Granovetter, 1992, 8). Lindbeck has mentioned people's changing attitude toward social security as one of the risks the Scandinavian welfare states must face. As a result of economic recession and deep unemployment, an increasing number of citizens must turn to social benefits. According to Lindbeck, there is a danger of increased misuse of social security as society's values become more favourable to it. This may be true, but in Finland, it has been found that individuals and households entitled to supplementary benefits do not necessarily apply for them, even though they really have the right to do so. (cf Virjo 1999). In cases like this, one can say that the social norms against the menaces mentioned by Lindbeck, reduce the individual and household's willingness to resort to society's subsidy forms.

*Research in Employment-related Economic Incentives*

In this research we study the allocation of social income transfers and employment incentives in the light of realistic examples. The data consists of the information the author has on the income level and household structure of the people who participated in an employment project. The subjects of the research were working for the municipality as subsidised employees during the research. For this reason, the economic incentives of employment have been examined at the level of a half-year period.

Background information on the income formation and household structures of thirty households altogether forms the entire research material. Here, the author deals with the incentive effects of the income transfer system in the cases of three sample households. In gathering the information on the income formation of the households, a questionnaire made by the researcher himself was used. It is based on a form that was developed to gather basic livelihood-related information for the KOTO calculating model.<sup>1</sup> The respondent's educational background, previous jobs, and the household structure (household size and ages of the household members), as well as the labour market status (unemployed, employed, student, outside the labour market) and income of each of the household members were charted using the questionnaire. The objective of the questionnaire was to collect all the necessary information concerning the financial state of the household and the changes that took place when employed.

These objectives were not achieved, however, because although the respondents had been asked about their preceding working history, they had not been asked about the wage paid in the previous job or the amount of earnings-related unemployment allowance. Consequently, the wage that was paid during the subsidised employment was used as a basis for determining the rate of the earnings-related unemployment allowance in the cases where the person's work history did not entitle him/her to earnings-related unemployment benefits. For those who had the ten months of employment during the last two years (necessary for being entitled to earnings-related unemployment allowance), an inquiry was sent asking them to provide the information concerning their wages during the previous period of employment. Based on this new and revised information

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<sup>1</sup> This calculation model, based on the Excel spreadsheet program, allows simulation of the livelihood of households of various types in different situations. The KOTO model was developed to identify the overall effect of different income transfer systems on the household's incomes and expenses. More about the KOTO model is available on the Internet at: <http://www.perlacon.fi>

the financial state of these households during the period of earnings-related unemployment allowance was determined.

For each household, six different combinations of unemployment security and subsidised employment have been charted; a one-year unemployment period with an income level guaranteed by three different forms of unemployment security (cash labour market support, basic unemployment allowance, and earnings-related unemployment allowance) and the impact of the half-year period of subsidised employment at the above-mentioned income levels.<sup>1</sup> The simulation of the income formation of the sample households was carried out at the time of gathering the research material, based on the legislation and taxation effective at the end of 1998.

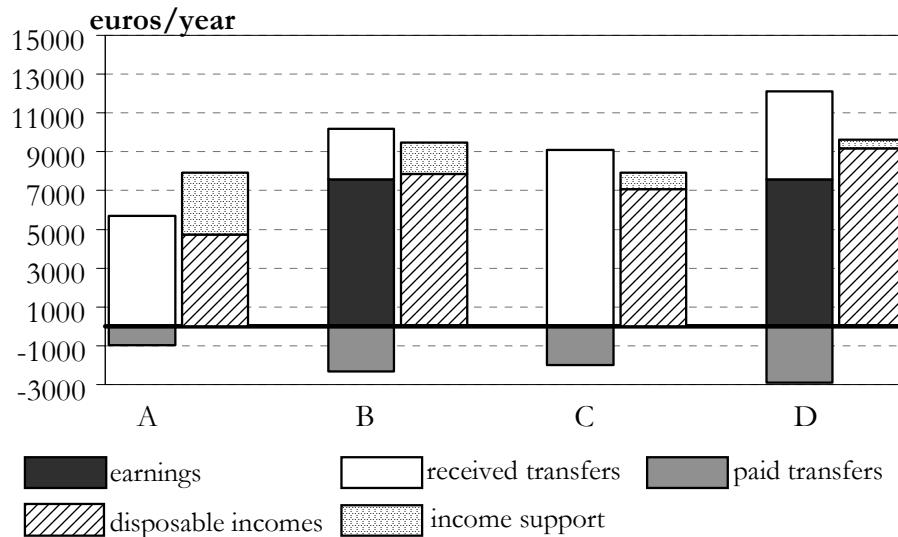
### **Three Case Studies of How Re-employment Affects the Incomes of Different Types of Households**

#### *The Effects of Re-employment on Incomes of a Single-person Household*

*Description of the first sample case study:* a single man lives in a detached house having reported maintenance costs of 336 euros/month. The municipal tax rate is 18.5 and the church tax rate is 1.5. The income transfers paid by the household are calculated according to these tax rates. The primary source of income is subsidised employment, which pays 1261 euros/month. Of unemployment security, cash labour market support and basic daily allowance are determined at equal amounts, because the person is not entitled to the family benefit and he has no wife, whose income would reduce the discretionary cash labour market support. The 1261 euros/month received through subsidised employment is used as the basis for calculating the earnings-related daily allowance, since the work history of the person in this example is insufficient to meet the in-employment condition.

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<sup>1</sup> Unemployed jobseekers are covered for, besides unemployment pension, basic unemployment allowance and earnings-related unemployment allowance as well as labour market subsidy. Persons on leave from their regular job can qualify for a special job alternation compensation. Financial assistance is also available to unemployed persons who undergo labour market training or conduct self-motivated studies. People made redundant may be eligible for redundancy pay, which can be supplemented by a training allowance, payable to those getting employment-oriented training.



**Figure 1.** Income formation of a single-person household at annual level according to different sources of income.

A = on basic unemployment allowance, B = six months on basic unemployment allowance and six months in subsidised employment, C = on earnings-related unemployment allowance, D = six months on earnings-related unemployment benefits and six months in subsidised employment.

It can be seen when examining the income formation of this household that disposable incomes increase owing to the subsidised employment period in comparison with incomes during unemployment in all alternative situations of employment. This sample household is interesting to examine as regards the stimulating effect of working, because the household's housing expenses are considerable and entitle the household to receive subsistence support to cover housing expenses in addition to the unemployment allowance. The income level, which has declined because of unemployment, in combination with the high housing costs of the owner-occupied house, immoderately raises the threshold against accepting employment as regards the person in this sample, because the added income from employment is deducted to its full amount from the subsistence support.



**Table 1.** Income formation of a single-person household, according to different sources of income during a calendar year (in euros)

	Primary sources of incomes			
	Basic un-employment allowance or cash labour market support	Basic unem- ployment allowance and subsi- dised em- ployment	Earnings- related un- employment allowance	Earnings- related un- employment allowance and subsi- dised employment
a) earned income	0	7 568	0	7 568
b) received income transfers	5 703	2 625	9 085	4 542
c) disbursed income transfers	973	2 318	2 016	2 913
Net income (a+b-c)	4 730	7 876	7 069	9 198
Net replacement rates at the point of taking up subsidised employ- ment		1.66		1.3
Housing expenses	4 037	4 037	4 037	4 037
Right to subsistence support	3179	1590	841	420
Disposable income	3873	5429	3873	5582
Net replacement rates, housing ex- penses accounted for		1.4		1.44

It can be seen when looking at the household's income formation that the real income level is dependent on the amount of housing expenses. For a person living alone, housing costs of 336 euros a month are so high that he is left with no disposable income in excess of the subsistence level when unemployed even with earnings-related daily allowance, but he has the right to subsistence support. Subsidised employment affects the subsistence of a person gaining employment after receiving earnings-related unemployment allowance, adding to his disposable income by almost one-third and to the take-home income by one-third.

As regards employment relationships of short duration, the person in this sample can be said to be in an incentive trap when getting employment after cash labour market support or basic daily allowance. Accepting employment of short duration (an employment period of 0–2 months) is not economically profitable in the short term, since the earned income is then deducted from the subsistence support. On the other hand, accepting subsidised employment seems stimulating even in economic terms, as an employment period of six

months will increase by about 40 per cent annually the take-home income of the household.

In the sample case, the problem of incentiveness is not related to any mutual adjustment of unemployment allowance and income from work, rather to the combination of subsistence support and working. In fact, the person's situation as regards acceptance of work of short duration could be called a subsistence support trap. The general notion is that incentive traps relate to a high income level guaranteed by a high earnings-related unemployment allowance. However, in this situation the person's low incomes in combination with high housing costs cause a certain degree of income transfer dependence. It could in fact be an incentive of the subsidised employment period that, thanks to the income from work, the person in this sample need no longer visit the social welfare office each month to have the office calculate whether his disposable income is sufficient or if he can receive as subsistence support the amount missing from the minimum level of subsistence.

If income transfer systems were really to aim at encouraging the unemployed to accept employment of short duration and even employment with lower pay, the income transfer system ought to be developed in such a way that the need for support is estimated over the longer term, for example, during a calendar year, as is done in taxation. Another way would be to alleviate the reduction of subsistence support as a result of income from work. It would then be possible to do work even for short periods without having all earned income directly deducted from the subsistence support. This is a difficult matter to solve, but the problem between subsistence support and the stimulation of working is obvious.

### **Costs Incurred by the Municipality From Subsidised Employment**

This research studied the costs to the municipality caused by each sample household during the person's unemployment lasting one calendar year, consisting of six months of unemployment and six months of subsidised employment. The resulting costs for the municipality from the household are subsistence support expenses during unemployment and expenses of employment in excess of government subsidy during the period of subsidised employment. For the person's unemployment (in this sample) during a whole year the municipality gets between 837 euros (basic security) and 1680 euros (earnings-related daily allowance) in income tax from the household, depending on the unemployment benefit.

**Table 2.** Costs for the municipality from a single-person household, according to different unemployment security benefits and the effect of the subsidised employment period on costs incurred by the municipality during a calendar year (in euros)

	Primary sources of income			
	Basic un-employment allowance or cash labour market support	Basic un-employment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
a) Income transfers paid by the municipality				
Share of pay for subsidised employment in excess of government subsidy	0	4603	0	4603
b) Income transfers received by the municipality				
Accrued municipality tax	837	1525	1680	1900
Net cost (a-b)	-837	3077	-1680	2703
Additional cost for the municipality for employment		3914		4383
+ subsistence support	3179	1590	840	420
Net cost with subsistence support	2342	4667	-840	3123
Additional cost for the municipality for employment with the right to subsistence support taken into account		2325		3963

The net cost incurred by the municipality for six months of subsidised employment varies between 2 703 euros for employing a person entitled to earnings-related daily allowance and 3 077 euros for employing a person receiving basic unemployment allowance. Calculating by net costs, the price for the employing municipality of the work input of an employed person is 450.5 euros/month for employing a person receiving earnings-related unemployment allowance and 512.8 euros/month for employing a person receiving labour market support or basic unemployment allowance. As regards net costs, it would seem more attractive for the municipality to employ a person receiving

earnings-related allowance than an unemployed person receiving a lower level of cash labour market support or basic unemployment allowance.

However, the situation is reversed when examining the additional costs of employment for the municipality by comparing the municipality's costs for a household in combinations of unemployment, and unemployment and subsidised employment periods. In this case, the municipal taxes paid for the period of unemployment by the person receiving earnings-related unemployment allowance increase the change in income transfers paid by the household to the municipality, and thus add to the municipality's additional costs for employment.

In this sample case, when taking into account the savings in subsistence support expenses resulting from employment, it seems a more attractive alternative for the municipality to arrange employment for a person receiving cash labour market support or basic unemployment allowance. The additional cost for the municipality for employing a person receiving cash labour market support or basic unemployment allowance is only 2325 euros a year (387 euros per month of employment). Thus, the municipality also in this case pays 4667 euros a year in income transfers for a six-month period of subsidised employment and for a six-month period of unemployment, but in this sample case, the person's unemployment costs the municipality 2345 euros a year in subsistence support expenses. Of course, it is in the best interest of the municipality to arrange employment by the value of the work done by the employed and by the possible effects of the subsidised employment on the later job career of the employed person. The significance to the municipality of the later job career of the employed person is an indirect incentive for employment on the part of the municipality, because by ensuring that the unemployed person becomes permanently employed, the municipal taxes paid by the person will increase the municipality's accrual of tax and reduce the income transfers paid by the municipality to the household.

### **Costs for the Government**

Possible costs caused to the government by the household are the different forms of unemployment allowance during unemployment, the employment subsidy to be paid to the municipality during the period of subsidised employment and housing allowance when the person in this case study receives basic unemployment allowance or cash labour market support.

**Table 3.** Costs for the government from a single-person household according to different unemployment allowances and the effect of the subsidised employment period on the government's costs during a calendar year, case B (in euros)

	Primary sources of income			
	Basic un-employment allowance or cash labour market support	Basic un-employment allowance and subsidised employment	Earnings-related un-employment allowance	Earnings-related un-employment allowance and subsidised employment
a) Costs to the government				
Unemployment allowance	5250	2625	5250	2625
Housing allowance	453	226	0	0
Employment subsidy (to the municipality)	0	4608	0	4608
b) Income transfers received by the government				
Government income tax	0	87	63	248
Employer's contributions	0	1642	0	1642
Net costs (a-b)	5703	5730	5187	5343
Additional costs for the government for employment		-27		-156

In this sample case, the net costs for the government for subsidised employment are lower compared with the unemployment allowance in all alternative situations. It seems in fact that the government does not incur any real costs to the municipality for the subsidised employment, resulting instead in savings when compared with this person's period of unemployment. Thus, in this case, the municipality pays when it arranges employment and the government collects the economic benefit. On the other hand, in subsistence support expenses the municipality saves a part of the funds used for employment and, in addition, gets the employed person's work input for six months at an added cost of 400 euros per month in employment.

*Summary of the Case*

This sample case focuses on the effects of the income transfer system and especially of the subsistence support on the economic benefit obtained by a household member from his employment. In the sample case, however, gaining employment was economically profitable, since the pay for a six-month period of subsidised employment (1 261 euros/month) increased the household's disposable income clearly over the minimum subsistence support. The threshold against accepting employment of short duration is raised by the monthly subsistence support, which when the person receives basic unemployment allowance or labour market support amounts to 265 euros, from which any incomes from work are deducted to their full amounts. It can thus be assumed that acceptance of employment of short duration or with low pay is not very attractive from the person's point of view in this sample case. For such an undesirable situation to be remediable, the income transfer system should be developed in such a way that incomes from work are examined over the longer term, as is already done for taxation. Another way of increasing the attractiveness of doing work for a short time would be to permit additional income of a certain amount during the time of subsistence support without any automatic reduction of the subsistence support. Going to work would thus increase the household's disposable income even when accepting employment while receiving subsistence support.

From the municipality's point of view in this sample case, the person's right to subsistence support during the time of unemployment reduces the municipality's additional costs of arranging employment. The monthly price for the municipality of this employed person's work input is 652 euros/month (compared with the basic unemployment allowance) and 730 euros/month (compared with the earnings-related unemployment allowance) not taking into account the savings in subsistence support. Assuming that the person in this sample case is employed in the municipality in a permanent employment relationship at the same pay as for the period of subsidised employment, the work he does would cost the municipality 1347 euros/month (salary of 1261 euros/month + employer's contributions of 274 euros/month – municipal tax 188 euros/month = 1347 euros/month). Thus, the employment subsidy paid by the government reduces the price of the work input by 46–51 per cent. In other words, the government compensates for about one-half of the municipality's costs for the employee's pay.

Arranging employment in the municipality is profitable from the government's point of view, because when the municipality is the employer, the costs incurred by the government are reduced in comparison with the costs incurred by the government from the person's unemployment in this sample case. Here,

the employment subsidy paid by the government to the municipality reduces the government's total costs for this household. Thus, the funds used to arrange employment are not clearly an expense item for the government, rather an investment, which accrues interest and gives a return, emerging as savings in other government expenses.

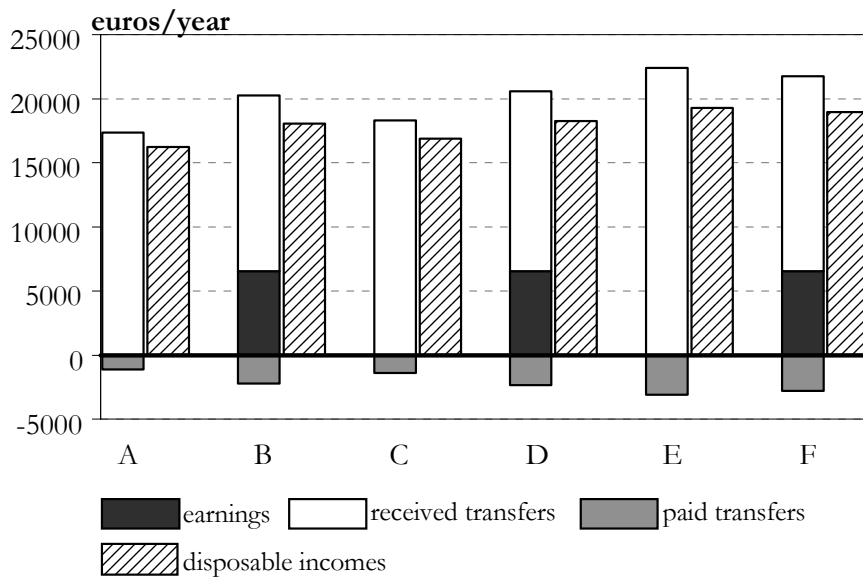
### **The Effects of Re-employment on Incomes of a Single-parent Household**

*Case description:* A single-parent household of one parent and two school-aged children. They live in a rented flat, housing expenses being 510 euro per month. The municipal tax rate is 18.75, the church tax rate 1.5. The wage for the employment period is 1093 euro per month. The total family allowance of 268 euro and maintenance allowance of 336 euro per month are factors that remain the same in the household's income formation when one switches over from unemployment to subsidised employment. In figure 2 the earnings-related unemployment allowance has been calculated based on the wage paid during subsidised employment (1093 euros).

After gaining employment the disposable income of the household in our example has grown compared with the benefits received during unemployment. In this case, the cash labour market support and the unemployment allowance will not be an equal sum, since in 1998 the child increase of cash labour market support was 40% of that of the basic unemployment allowance.

When evaluating the income formation of this household, we see that a half-year period of employment increases the amount of disposable income most when the individual has been receiving (means-tested) cash labour market support while unemployed. If accepting work is considered incentive enough only when the disposable income rises by ten per cent, it would seem that the household we are looking at is caught in a trap of disincentive effects – both when employed after a period of receiving basic unemployment allowance and when receiving earnings-related unemployment allowance. If, however, the disposable income is examined (the household's income after housing expenses have been deducted), accepting work seems to be an incentive (according to the same 10% rule) even when the person has been living on basic unemployment allowance during his/her time of unemployment. There are, of course, certain expenses related to working life, such as commuting expenses and meals during workdays. Also, a single parent may value the work done at home and this can reduce his/her willingness to accept work outside home. Combining the earnings-related unemployment allowance and subsidised employment raises the net income by 6 per cent. Maintenance support for children is a significant

element in the income of a single-parent household; it affects the way in which the minimum unemployment benefit is determined and always increases the amount of net income.



**Figure 2.** Income formation of a single-parent household with two school-aged children at a yearly level and according to different forms of income.

A = on cash labour market support, B = 6 months on cash labour market support and six months in subsidised employment, C = on basic unemployment allowance, D = six months on basic unemployment allowance and six months in subsidised employment, E = on earnings-related unemployment allowance, F = six months on earnings-related unemployment benefits and six months in subsidised employment



**Table 4.** A calendar-year income structure, according to different income sources for a single-parent household with two school-aged children (in euros)

	Primary sources of incomes					
	Cash labour market support	Cash labour market support and subsidised employment	Basic unemployment allowance	Basic unemployment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
a) earned income	0	6559	0	6559	0	6559
b) received income transfers	17374	13677	18286	14031	20495	15192
c) disbursed income transfers	1143	2197	1380	2343	2249	2791
Net income (a+b-c)	16231	18039	16906	18247	18246	18960
Net replacement rates at the point of taking up subsidised employment		1.11		1.08		1.04
Housing expenses	6115	6115	6115	6115	6115	6115
Disposable income	10116	11924	10791	12132	12131	12845
Net replacement rates, housing expenses accounted for		1.18		1.12		1.06

The person in our example was entitled to an earnings-related unemployment allowance of 1029 euros per month when she started the subsidised work (the wage in her previous job had been 1626 euros a month). It was not possible to use two different income levels in analysing the income formation in the annual diagram used here. In this case, it was necessary to evaluate the changes in the income formation during the employment period by comparison to the income formation during unemployment at a monthly level.

**Table 5.** Income formation of a single-parent household with two children when the person in this case study was receiving earnings-related unemployment allowance and when she was involved in subsidised employment (in euros)

	Earnings-related unemployment allowance	Subsidised employment
Earned income	0	1093
Received income transfer	1866	824
Paid income transfer	260	288
Net income	1606	1629
Net replacement rate		1.01
Housing expenses	510	510
Disposable income	1096	1119
Net replacement rate, housing expenses accounted for		1.02

When the person in this sample case ended up in subsidised employment, we notice that the actual financial position of the household had improved only by 1–2 per cent compared with the income level during unemployment. Employment resulted in the household gaining only 23 euros more for consumption, compared with the income level during unemployment. One may ask if it is financially wise for this person to accept the job. In the short term, there seems to be no economic incentive for taking the job, since the financial position of the household is hardly improved by employment. This in turn brings up another question: should we not do something to make employment more attractive? Compensation for commuting expenses, canteen meals and improved occupational health services would certainly be significant at least for the groups with a lower income level. If there were a fixed monetary value set for the work done at home, the household's income level would fall compared with the parent's period of unemployment. The inference from this example is that the very status of becoming employed has itself been an incentive for accepting subsidised work, even if it brings no economic profit.

In reality, the threshold against accepting employment in a single-parent household can be harder to overcome due to the extra effort that is needed in organising the children's daycare. This would suggest that in order to promote the employment of the unemployed in general and of single-parent households with low incomes in particular, the municipalities should develop easy-to-reach and inexpensive childcare services. This is especially true in the countryside and in sparsely populated areas, where the distances to workplaces can be dozens of

kilometres, which in turn means that day-care services must be reachable if accepting work is to be a sensible thing to do.

**Table 6.** Costs incurred by the municipality for a single-parent household, according to different unemployment allowances and effect of the subsidised employment period on the municipality's costs during a calendar year (in euros)

	Primary sources of incomes					
	Cash labour market support	Cash labour market support and subsidised employment (6 months)	Basic daily allowance	Basic daily allowance (and subsidised employment)	Earnings-related daily allowance	Earnings-related daily allowance and subsidised employment
a) Costs incurred by the municipality						
Part of pay for subsidised employment exceeding government subsidy	0	3981	0	3981	0	3981
b) Income transfers received by the municipality						
Municipal tax	985	1496	1190	1598	1837	1893
Net cost (a-b)	-985	2485	-1190	2383	-1837	2088
Additional cost to municipality from arranging employment		3470		3573		3925

### Costs Incurred by the Municipality From Subsidised Employment

This study has examined the costs incurred by the municipality from a single-parent household for a period of unemployment lasting a whole calendar year and in combinations of six months of subsidised employment and six months of unemployment. Municipal taxes are the only income transfers paid by the exemplifying household to the municipality, because there are no children of daycare age in the household (i.e. no daycare fees during the period of subsidised employment). As regards the sample household, the parent's unemploy-

ment results in no additional expenses for his municipality of residence, since the household is not entitled to any subsistence support during this person's time of unemployment.

For providing a six-month period of subsidised employment, the municipality incurs a cost of between 2088 euros and 2485 euros. Arranging employment for the person receiving the smallest unemployment allowance would therefore seem to be the most expensive alternative for the municipality. For the municipality, the price of the exemplifying person's work input calculated at net costs is 348 euros/month for employing a person entitled to earnings-related allowance, 397 euros/month for employing a person receiving basic unemployment allowance and 414 euros/month for employing a person receiving cash labour market support. Additional costs incurred by the municipality for employment – that is, comparing the net costs of employment with a situation in which the municipality would arrange no employment at all – will increase the costs of a six-month period of subsidised employment to 3470 euros (578 euros/month) for a person receiving labour market support, to 3573 euros (595.5 euros/month) for employing a person receiving basic unemployment allowance and to 3925 euros (654 euros/month) for employing a person receiving earnings-related unemployment allowance. The most expensive alternative, therefore, would in fact be employment for a person entitled to earnings-related unemployment allowance. In this sample case, the costs incurred by the municipality even for the most expensive alternative employment are approximately 650 euros a month. Thus, arranging employment for the person in this case can be said to be worthwhile for the municipality, if the work input of the employed person is at the level of a person receiving “minimum pay”.

#### *Costs to the government from subsidised employment*

Costs to the government caused by this sample household are various kinds of unemployment allowances during the person's time of unemployment and employment subsidies during the time of subsidised employment. The household receives housing allowance and child allowance as income transfers from the government in all alternative situations.

Table 7 shows the income transfers received by the household from the government and paid by the household to the government, as well as the resulting costs for the government from arranging employment (full employment subsidy). The sample household creates costs for the government in all alternative situations, but a six-month period of subsidised employment will reduce the government's costs that are caused by the household. These costs to the government by the household are reduced least of all by employment of a

person entitled to labour market support and most of all by employment of a person entitled to earnings-related unemployment allowance. In this case, the government saves when the municipality arranges employment, since the costs to the government by the household are reduced as a result of the subsidised employment period in all alternative situations.

**Table 7.** Costs of a single-parent household for the government, according to different unemployment allowances and effects of the subsidised employment period on costs for the government during a calendar year (in euros)

	Primary source of income					
	Cash labour market support	Cash labour market support and subsidised employment	Basic unemployment allowance	Basic unemployment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
Unemployment security	5 858	2 929	6 769	3 385	6 769	3385
Employment subsidy	0	4 608	0	4 608	0	4608
Child allowance	3 213	3 213	3 213	3 213	3 213	3213
Housing allowance	4 267	3 498	4 267	3 397	3 447	3043
b) Income transfers to the government						
National income tax	0	66	0	92	118	198
Employer's contributions	0	2 030	0	2 030	0	2030
Net cost (a-b).	13338	12153	14249	12480	13311	12021
Additional cost of employment		-1185		-1769		-1290

#### *Conclusions from the example studied*

In reality, the parent in the exemplifying household gains only a small economic benefit from the period of subsidised employment. At a monthly level the incomes rose by 23 euros compared with the actual situation in the period of earnings-related unemployment allowance. If we could estimate a value measurable unambiguously in money for the work done at home, then the household's income level would fall in comparison with the parent's income level during

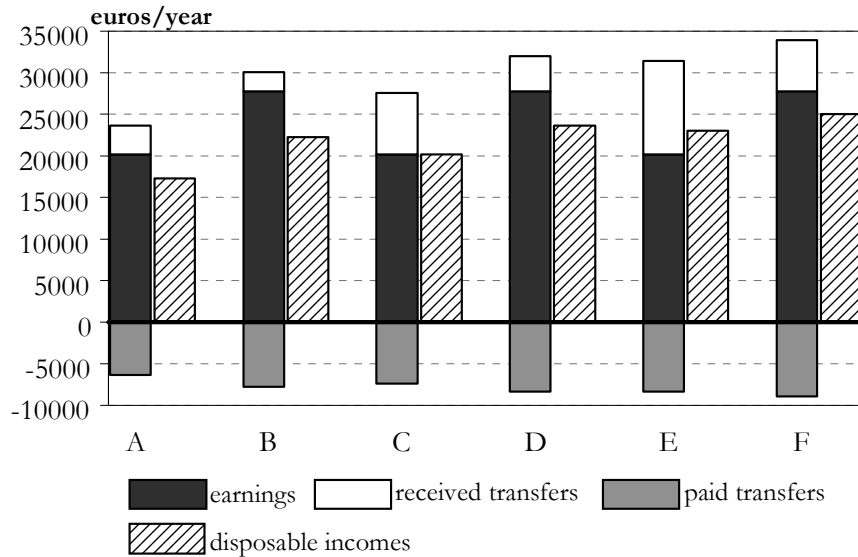
unemployment. It can be concluded from this sample case that gaining employment has itself been a sufficient incentive for accepting the offered subsidised employment, even though this may not bring any economic benefit. Consequently, this raises the question: in what way could accepting work be made an easier and more attractive alternative? It is then a question of various work-related benefits, such as workplace canteen, occupational health care and compensation for commuting expenses, in addition to the level of pay of the subsidised employment period.

Arranging employment can be considered worthwhile from the municipality's point of view, because the monthly price of employed work input will be 654 euros even at the maximum. Assuming that the municipality employs the person in the sample case in permanent employment to work for the same monthly pay of 1093 euros as he received in arranged employment, the resulting costs for the municipality from the employment would be 1266 euros a month (wage/salary 1093 euros/month + employer's contributions of 338 euros/month – municipal tax 165 euros/month = 1266 euros/month). The employment subsidy paid by the government reduces the municipality's employment costs by approximately one-half (by 48 per cent even at the minimum).

From the government's point of view, subsidised employment in the municipality is economically worthwhile, and the subsidised employment period reduces the costs to the government by the household in comparison with the costs of unemployment. In this sample case, it seems that the employed person economically gains least of all from accepting employment, while the municipality receives advantageous labour and the government saves in its unemployment-related expenses more than costs incurred by employing a person through public subsidies. In this sample case, the money used as employment subsidy is a good investment, because it reduces the government's costs in comparison with the costs of financing unemployment security.

### **Effects of Re-employment on Incomes of a Household of two Adults and a Child**

*Case description:* A household of two adults and a child of school age. The man is employed, earning 1 682 euros/month, and the woman's pay for a period of subsidised employment is 1 261 euros/month. They live in a one-family house, where maintenance expenses are 172 euros/month. Received income transfers to the household is a child allowance of 90 euros/month.



**Figure 3.** Income formation of a household of two adults and a child on an annual basis according to different sources of income.

A = Woman gets cash labour market support, B = Woman gets cash labour market support and is in subsidised employment, C = Woman gets basic unemployment allowance, D = Woman gets basic unemployment allowance and is in subsidised employment, E = Woman gets earnings-related unemployment allowance, and F = Woman gets earnings-related unemployment allowance and is in subsidised employment.

A six-month period of subsidised employment increases the household's disposable income in each case under study. Proportionally, the largest rise in income is when a person receiving labour market support receives employment, since in the sample case, the spouse's income reduces the cash labour market support, which is even smaller than the basic unemployment allowance due to the smaller child increase of cash labour market support.

**Table 8.** Income formation of a household of two adults and a child, according to different sources of income during a calendar year (in euros)

	Primary sources of incomes					
	Cash labour market support	Cash labour market support and subsidised employment	Basic unemployment allowance	Basic unemployment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
a) earned income	20183	27 751	20 183	27 551	20 183	27 751
b) received income transfers	3487	2 284	7 373	4 226	11 206	6 143
c) disbursed income transfers	6347	7 780	7 349	8 345	8 354	8 910
Net income (a+b-c)	17323	22 255	20 205	23 632	23 035	24 984
Net replacement rates at the point of taking up subsidised employment		1.28		1.17		1.08
Housing expenses	2059	2 059	2 059	2 059	2 059	2 059
Disposable income	15264	20 196	18 146	21 573	20 976	22 925
Net replacement rates, housing expenses accounted for		1.32		1.19		1.09

The period of subsidised employment increases the household's disposable annual income by 4932 euros when a person receiving cash labour market support receives employment, by 3427 euros when a person receiving basic unemployment allowance gets employment, and by 1949 euros when a person entitled to earnings-related unemployment allowance gets employment. Thus, the highest work-related incentive is for the person receiving discretionary labour market support and whose household's disposable income increases by 28 per cent in consequence of a six-month period of subsidised employment. In comparison with the earnings-related unemployment allowance, a six-month period of subsidised employment will increase the household's disposable income by only eight per cent, which can be interpreted as a poor incentive to working in comparison with the earnings-related unemployment allowance.



*Costs for the municipality*

The municipality incurs no additional costs by the household in any alternative situations for the period of unemployment, because the household is not entitled to subsistence support. For the period of subsidised employment, the municipality incurs costs from the share of pay for subsidised employment and from employer's contributions, which exceeds the full government employment subsidy.

**Table 9.** Costs incurred by the municipality for a household of two adults and a child during unemployment of one parent, according to different unemployment allowances and the effect of the period of subsidised employment on the municipality's costs during a calendar year. (in euros)

	Primary sources of incomes					
	Cash labour market support	Cash labour market support and subsidised employment	Basic unemployment allowance	Basic unemployment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
The municipality's costs						
Share of pay for subsidised employment exceeding government subsidy	0	5303	0	5303	0	5303
Income transfers to the municipality						
Municipal tax	3208	4047	4070	4478	4875	4860
Net cost for the municipality	-3208	1256	-4070	825	-4875	443
Additional cost of employment		4464		4895		5318

As regards net costs, employment for a person receiving earnings-related unemployment allowance is most advantageous for the municipality, where the net cost of a six-month period of subsidised employment is 443 euros. The next most advantageous employment as regards net costs is for a person receiving basic unemployment allowance (825 euros) and the most expensive

employment is for a person receiving cash labour market support (1256 euros). In fact, the income transfers paid by the household to the municipality cover a large part of the municipality's costs for arranging employment.

However, changes occurring in income transfers paid by the household to the municipality, together with the money used for employment, increase the municipality's employment costs. The municipality incurs the most additional costs by employment of a person entitled to earnings-related unemployment allowance (5318 euros). The next most advantageous situation (of the alternatives) is employment of a person receiving basic unemployment allowance, whereby the municipality incurs an additional employment cost of 4895 euros. For the municipality it is most advantageous to arrange employment for a person entitled to cash labour market support, whereby the additional cost of employment is 4464 euros. For the municipality arranging employment, the price of the employed person's work input calculated by additional costs of employment is 744 euros/month for a person receiving cash labour market support, 816 euros/month for a person receiving basic unemployment allowance and 886 euros/month for a person entitled to earnings-related unemployment allowance.

#### *Costs for the Government*

The government incurs costs for the household in the form of child allowances and unemployment security benefits as well as employment subsidy during the period of subsidised employment

Only employment of a person receiving the lowest unemployment security, that is, discretionary cash labour market support, can be said to be a loss to the government. In other cases, the government saves in the expenses caused by the household as a result of employment for the person in this sample case. As regards the sample household, those situations where one of the adults receives cash labour market support during the whole year or during a part of the year, are the only ones where more income than expenses result for the government from the household. In the other alternative situations, the household causes the government more various expense items than income, but these expenses will be reduced as a result of the period of subsidised employment. From the government's point of view, the discretionary nature of cash labour market support and the child increases, which are smaller in comparison with the basic daily allowance, keep the unemployment allowance of the sample household so low that the savings resulting from employment for the person receiving cash labour market support is insufficient to cover the costs of arranging employment for the person receiving employment subsidy.

**Table 10.** Costs to the government for a household of two adults and a child during unemployment of one adult, according to different unemployment securities and effect of the subsidised employment period on the government's costs during a calendar year (in euros)

	Primary sources of income					
	Cash labour market support	Cash labour market support and subsidised employment	Basic unemployment allowance	Basic unemployment allowance and subsidised employment	Earnings-related unemployment allowance	Earnings-related unemployment allowance and subsidised employment
a) Costs to the government						
Unemployment security	2 408	1 204	6 292	3 146	6 292	3146
Child allowance	1 080	1 080	1 080	1 080	1 080	1080
Employment subsidy	0	4 608	0	4 608	0	4608
b) Income transfers to the government						
National income tax	1 398	1 398	1 398	1 464	1 467	1582
Employer's contributions	4 380	6 722	4 380	6 722	4 380	6722
Net costs	-2 290	-1 228	1 594	650	1 525	530
Additional cost of employment		1 062		-944		-995

The expenses which the household causes the government are reduced most of all when employment is arranged for a person entitled to earnings-related unemployment allowance (995 euros). But if the person's unemployment benefit in this sample case is basic unemployment allowance, then his employment will result in a reduction of 944 euros annually in the costs that the household causes the government. The discretionary nature of cash labour market support reduces the household member's income transfers from the government during unemployment, so employment for a person receiving cash labour market support will increase the government's costs for the household by 1 062 euros a year.

From the household's viewpoint, gaining subsidised employment increased the disposable income in all alternative situations. The importance of subsidised employment was greatest when comparing cash labour market support and subsidised employment, whereby the household's disposable income increased

by 28 per cent annually in consequence of the period of subsidised employment. In the other alternative situations, too, the period of subsidised employment increased the household's income level, whereas the increase in income was reduced as regards the income of those with longer periods of unemployment.

In the sample case, the municipality incurred 744–886 euros/month of additional costs for employment. If the municipality had arranged employment for the exemplifying person without any employment subsidy paid by the government, the employee's work input would have cost the municipality 1227 euros/month (salary of 1261 euros/month + employer's contributions of 390 euros/month – municipal taxes paid by the household 424 euros/month = 1227 euros/month). Thus, the employment subsidy paid by the government reduced the costs of employment by 28–39 per cent.

From the government's point of view, subsidised employment in the municipality reduced the government's costs for the household in all other alternative situations, except when the employed person was receiving cash labour market support during the time of unemployment. This is explained by the fact that the household consists of two persons receiving incomes and that the discretionary nature used as the basis for calculating the cash labour market support reduces the employed person's allowance during the time of unemployment, whereby the exemplifying person's unemployment will hardly cause the government any such costs. In such a case, savings could be achieved by arranging employment.

## Conclusions

The estimates presented in this study concerning the incentive effects of employment are based on real case studies and hence provide an opportunity to assess the incentive effects of today's income transfer systems. One must be cautious, however, in generalising the results, because it is after all a case study: although the objects of the study, i.e. the households, are real, their representation within the entire whole is not evaluated. By examining the income formation of the household during unemployment and subsidised employment, it can be concluded that our present income transfer and taxation systems are able to deal with different types of households in an equal manner.

It has been suggested that we should interfere with the level and length of unemployment security to increase the incentiveness of employment. Based on the results of this study, one could claim that employment in itself is not a disincentive, at least in reference to those people entitled to basic unemployment allowance, if the employed persons receive compensation for commuting expenses and if the municipality provides functional and inexpensive daycare services that suit even the low-salaried people. These factors receive special

emphasis in remote areas where they can become a real impediment, especially now that the Ministry of Labour has widened the area from where an unemployed person is expected to accept work. The present disincentive effects could be reduced also by renewing the income security system so that a taxation year would be taken as the basis for determining the need for and the amount of living allowances. Consequently, cutting unemployment allowances would then put pressure on adding to other forms of subsidies, especially the amount of money given out as general housing allowance and living allowance.

Living allowance has a disincentive effect on accepting a low-salaried job since the amount of living allowance is fully reduced by any earned income the person has. Lowering the level of unemployment security, then, is not an effective way to make working more worthwhile. On the contrary, the cutting and scaling down of unemployment allowances could drive the households into even deeper poverty.

It should be kept in mind, when considering the economical effects of subsidised employment, that a prolonged absence from the labour market means that social income transfers constitute a growing part of income sources, thus affecting the individuals' life-time amount of income, which again has a direct effect on the accrued employment pension and the income level in old age. The economical and social effects of prolonged unemployment will in fact emerge after some delay, and, in the worst case, the increase in income differences may result in the birth of a new "lower class" in the future. Indeed, Malcolm Waters (1997) finds that groups (such as the unemployed) which build their subsistence on various subsidies paid by the government even now constitute a lower class that is dependent on government actions, and into which if you are born, it is difficult to escape. Subsidised employment is one way of avoiding realisation of these undesirable consequences, and if it is possible in this way to prevent or even to alleviate a split in society, then in evaluating the money used for this purpose, the focus should not perhaps be on short-term cost-benefit analyses or on other effects measurable in economical terms. The present research, however, has done this basic research into the economical costs and benefits of subsidised employment to make administrative decision-making easier, taking into account the interests of various performers. The research finds that subsidised employment, also in view of economic rationality, is a worthwhile activity both to the employing municipality and to the government and, with some reservations, also to the persons gaining employment and to their households.

## 9 Long Term Unemployed in the Competition and Selection Process of Labour Markets

*Pertti Koistinen*

### Introduction

How do people find jobs and do the unemployed use the same channels and strategies as other job-seekers are central questions of classic labour market research? The questions can be split up into many sub-issues. One may ask whether the unemployed find employment immediately or after a long period of waiting. Are they returning directly to employment from unemployment or, for example, by way of training and/or change of occupation? And what kind of jobs do they find? Do they regain their earlier jobs or get new ones, and does the integration into the working life take place on the basis of their former occupational skills or new skills? From the perspective of the functioning of labour markets and the status of individuals it would also be interesting to know the number of unemployed who become self-employed, employed by co-operative societies or end up as wage earners. If they become wage earners, are they employed in permanent or temporary employment relationships, in jobs with good or bad employment security, etc.? Of course, one possibility is that the unemployed find no work at all, but rather end up outside the labour force entirely, partly, or for a certain period of time (due to studies, maternity leave, military and civil service, part-time pension, etc.).

If we knew the answers to these questions, we would also be able to say something about what the labour market position of the unemployed is like when compared with those job-seekers who end up applying for jobs from some other labour market position, such as after completing training, after having done household work or after recovering from an illness. We would learn at the same time how the labour markets function and how, for example, various institutional systems, such as educational, pension and social security systems or employment policy measures, affect the functioning of the labour markets and the positions of different groups in the labour markets.

Throughout the 1990s, researchers have paid particular attention to the employment of the unemployed. The reason for this is the growing number of long-term unemployed and the fact that in spite of acts to support the unemployed, demand for labour would seem to have turned to other groups rather

than to the unemployed. But why does the demand for labour not turn equally to the groups competing on the labour markets, e.g. to those who have completed training, those who leave household work for the labour markets and those who try to find jobs after unemployment? Could the reason for this be that individual characteristics are very different in the various groups of persons applying for jobs or that these groups behave in different ways on the labour markets? Or could the reason be that employers and social institutions respond differently to applicants belonging to these different groups, even discriminating against some?

The focus of this study is to evaluate the competition occurring in the labour markets and in this context the integration of the unemployed into the working life. The data for this survey is comprised of individual register-based data from the years 1990–98, gathered as longitudinal data and delineating the labour force of five urban regions in Finland. Individuals were categorised into the following groups competing for employment: persons changing employment, the long-term and repeatedly unemployed, persons who have recently graduated, the insufficiently and under-employed and those in or applying for employment in addition to studies, those returning to the labour markets from outside the labour force and the group of “others” belonging to the labour force (at least 4 months in employment/unemployed) during the year under survey.

By analysing the size and composition (age, education, gender, etc.) of these competing groups we have attempted to identify the preconditions of job competition. It can be assumed that the size and composition of the groups will have changed over time. The economic development during this time frame can be split up into the years of recession, the years of transition and the years of economic growth. It can be assumed that essential differences will be indicated between urban regions in the size and composition of the competing groups, and this for its part may have caused the integration of the unemployed into the working life to develop at a different rate. On the other hand, employment is estimated according to the duration of employment and not, for example, as a cross-section according to the main activity. The permanence of employment for its part is estimated by follow-up data covering eight years.

### **Competition in the Labour Markets**

In surveys made in recent years the integration of the unemployed into the labour markets has often been estimated in relation to the method(s) used by the unemployed to apply for jobs, on one hand, and institutional factors, such as the functioning of the unemployment security system, on the other hand. This kind of approach is familiar especially in labour economics (Pissarides, 1985;

O'Higgins, 1995; Layard, 1996). It has been shown in surveys concerned with job search theory, such as those of Layard et al. (1991) and Bean (1994), that the job search activity and the forms of job search of the unemployed are factors of great significance in their integration into the labour markets. The basic assumptions of the job search theory are interesting, although its notions of the openness of the labour markets and of the willingness and ability of job seekers to give preference are not very realistic. At least in the Nordic countries we need some realism, because within the framework of the welfare state the unemployed have different forms of allowance and several routes of exit from unemployment (Strandh, 2000). For this reason the results of research done in other countries, which is concerned with the job search theory, must be evaluated carefully before applying them to Finnish conditions.

In Sweden empirical research has been done to study the recruiting practices of employers, job search practices of the unemployed, as well as the impact of institutional systems on the functioning of the labour markets. (Ackum-Agell, 1995; Harkman and Jansson, 1995; Åberg, 1997; Klingvall, 1997; Bolinder, 1999). The Swedish research has deflated many of the myths prevailing in explanations of the employment of the unemployed. In the following we demonstrate some of the findings:

- Harkman (1999) studied the return of the short-term and long-term unemployed to the labour markets and noticed that the return to the labour markets from unemployment had weakened generally in all groups from 1987 to 1999 and varied according to the demand for labour. Thus, long-term unemployment resulted from a weakened return to work from unemployment; this was true also for other groups than the long-term unemployed. The number of vacancies signalled a return to the labour markets from unemployment even when considering those who had been out of work for more than two years as well as the repeatedly unemployed. This result was similar to that indicated by Machin and Manning (1998) in their survey of other countries in Europe.
- The fact that finding a job becomes less probable as the time of unemployment becomes longer may be because either the job applicant gives up his frustrating search for employment or the long-term unemployed loses his occupational skills or his networks linking him to the working life. According to the Swedish research, almost one-half of the unemployed were re-employed by their previous employer, and for this reason they were not actively looking for work elsewhere (Harkman and Jansson, 1995). On the other hand, according to Klingvall's surveys (1998), an unemployed person, by knocking persistently at an employer's door, increased his/her possibility of obtaining employment in the open labour markets. As many as 25% of



the employers were of the opinion that the activity of the unemployed was a deciding factor when filling a job position that had become vacant.

- When an unemployed person was re-employed by his earlier employer, the age and education of the unemployed had no effect on the choice, but when new vacancies were filled, both were affecting factors (Jansson, 1999). The young and well-educated unemployed found employment easier in the years from 1991 to 1999 than the others (Klingvall, 1997). In fact, age proved to be such a significant screening factor that after the age of 40 the standard of education no longer had any effect on the issue of whether those who were made redundant in the year 1994 were still unemployed in the year 1999. In comparison, it was more unusual that those with a better education in younger age brackets were still unemployed after five years (Harkman, 1999).

Surveys concerned with the job search theory have been central to the discussion on the integration of the unemployed into the working life. On the other hand, less attention has been paid to the issue of the way in which the integration of the unemployed into the working life has been affected by the competition occurring in the labour markets and by the process of selection where individuals and groups have different positions and different resources. This survey aims at estimating the integration of the unemployed into the labour markets in relation to the position of other groups in the competition, and the structure of the labour markets and their ways of functioning. This is an important emphasis, since many earlier surveys focused on one group only, often on the group of unemployed. But the information obtained on the employment of the unemployed has not been compared with the employment of other groups, such as those who have recently graduated or those seeking their way into the labour markets.

The note above is of theoretical significance, because employment of the unemployed is often made difficult by the fact that at the same time there are also other job seekers, who strive from other positions on the labour markets. Thus, the long-term unemployed have to compete for jobs with the newly unemployed who have just lost their jobs, with young people who have recently graduated and with adult students, with persons leaving their household work for the labour markets or job applicants returning to the labour markets, with persons employed for fixed periods of time and with those seeking for a permanent employment relationship, with job applicants doing part-time work but seeking full-time work, with those returning to the labour markets after a period of illness and with those seeking employment while studying or while on part-time pension, and also with new job applicants who are immigrants or new arrivals in the locality.

The problem is not only that other groups compete for jobs with the unemployed, but also that all these groups have different interests and resources for seeking employment. Different groups also have different preferences in regard to the kind of job and terms of employment they accept. The differences occur both between the groups and between the individuals. We assume that a person seeking employment while studying has different preferences and occupational skills than a recently graduated person seeking employment. It is also to be assumed that a person leaving domestic work for the labour markets, depending, of course, on the applicant's education, earlier working experience, prosperity and family situation, has different resources and social networks for seeking employment than those who have been in the labour markets continually or who have been out of work for a long time. It could thus be assumed that those leaving domestic work for the labour markets will find it more difficult to find work than those who are already on the labour markets in temporary or part-time work.

### **The Data and Methods**

This study has been carried out on the basis of the same the longitudinal register-based data of individuals, which has been mentioned in previous articles (see Jolkkonen and Kilpeläinen, *in this Vol.*).

One of the most important and interesting advantages of our data is that it makes it possible to study the individual's behaviour in the labour markets and to observe how, at which stage of their life course, or after what length of waiting time, the individuals enter the labour markets or become employed after studies, parental leaves, unemployment, etc. On the basis of the register data we can construct an employment history of individuals in terms of the length and the process of phenomena.

Using the register-based data concerning urban regions it is possible to study employment and unemployment in regard to all essential groups. Of course, the registers do not tell about the preferences of individuals or groups, but it may be used for constructing the work history of individuals by way of the choices made in reality. The registers do not contain any ready-made groups, such as those changing jobs, unemployed applicants for jobs, those recently graduated, those coming to the labour markets from outside and those seeking employment in addition to studies, but the register-based data can be used for forming groups, which are operational equivalents of those concepts used in labour market literature. In the present research, the groups competing for jobs in the labour markets were formed as presented below.

Those persons belonging each year to the working age population were chosen as belonging to competing groups, who were not in any permanent employment relationship (in work 12 months/year during two successive years and with one employer only) and who have belonged to the labour force (in work/unemployed) for at least 4 months in the year under survey.

- *Persons changing jobs* have been in work for 12 months both in the year under survey and in the preceding year, but in two successive years they have acted in different branches or sectors or they have been in more than one employment relationship during the year under survey.
- Those unemployed persons belong to the *long-term and repeatedly unemployed* who during the year preceding the one under survey have been unemployed for at least 10 months or whose total period of unemployment in the two preceding years is at least 12 months and whose unemployment during the year under survey also exceeds half a year.
- *Insufficiently and under-employed* are those who in the year preceding the one under survey belonged to the workforce for at least 4 months and who neither enrolled in studies nor received any pension.
- The *recently graduated* are those who graduated during the year under survey or during the preceding year.
- Persons *coming to the labour markets from outside* are those who in the preceding year did not belong to the labour force even for a single month and who were not enrolled in studies.
- Those are defined as *students*, who during the year under survey belonged to the labour force for more than 4 months, who were enrolled in studies during the previous year and who have not yet graduated during the year under survey.
- Persons not belonging to any one of the above-mentioned definitions belong to the group *Others*.

Whether or not a person belongs to a group is determined according to the duration of the matter examined, for example, unemployment, and not just as a situation found to exist at some time. By this definition we will overcome the limitations of cross-sectional analysis. Information on an annual basis somehow breaks off the activity of individuals at the turn of the year. For this reason, when measuring employment, account is taken of the duration of employment in the year preceding the year under survey and in the year after the year under survey. Based on this concept, employment is divided into four categories:

- The *permanently employed* are those who during the year under survey have been employed for at least 10–12 months or who during two successive years have a total period of employment of no less than 20 months.
- The *insufficiently employed* are those who during the year under survey have worked for 7–9 months or who during two successive years have a total period of employment of 14 months, of which at least 6 months were during the year under survey.
- The *under-employed* are those who during the year under survey have worked for 4–6 months or who during two successive years have a total period of employment of 8 months, of which no less than 4 months were during the year under survey.
- The *non-employed* are those who during the year under survey have worked for 0–3 months.

The advantage of this individual-based register data is that it makes it possible to benefit from the advantages of longitudinal and process analyses despite the limitation that not all the variables fulfil all the demanding criteria of statistical analysis. For the first time we have representative longitudinal individual-based data, which makes it possible to follow up on an individual's labour market behaviour in the context of societal change. Individuals can be related to societal factors such as location, time, structure and the dynamics of the labour markets.

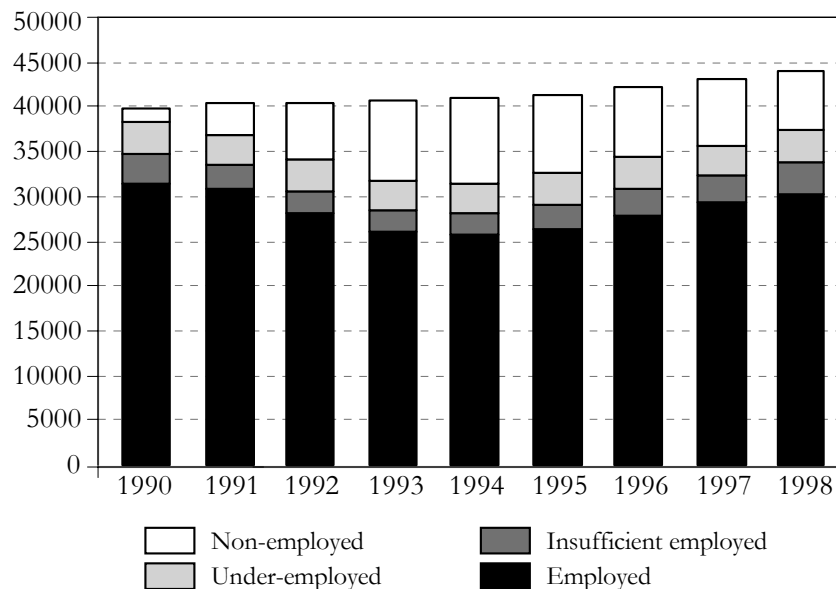
When analysing the data, the descriptive methods, such as cross-tabulation and testing, proved to be beneficial. Additionally, we have proven the multivariate model analyses, such as logistic regression analysis and the “answer three model” method to identify those factors that may foretell the re-employment of the long-term unemployed. These results, however, are not included in this article, since the main point of the article is to describe the composition and success of the groups who compete for employment in the labour markets.

## Competition and Employment

### *Preconditions for Becoming Employed in the Labour Markets*

According to the results of Harkman's (1999) study, the opportunities for the unemployed to regain employment were weakened significantly in the Swedish labour markets in 1987–1999. This holds true for the short-term unemployed, the repeatedly unemployed, and the long-term unemployed whose status of employment varied according to the changes in labour demand. This result gives reason to argue that the employment opportunities of the various competition

groups mentioned above do vary according to the labour demand. The OECD studies verify that labour demand starts to increase after a delay of 1–2 years after the start of economic recovery but progresses at varied speeds in the export and import-oriented sectors of production as well as in the public and private sectors (OECD: Employment Outlook, 1996). This seems to be the case also in Finland even though the delay in the increase of labour demand was a little bit longer than in other countries. It started up in steps in 1993 and 1994 and spread out to the public sector and developing areas in 1995 and 1996.



**Figure 1.** The level of employment of the labour force in 1990–1998 (all people from 15–64 years of age who had been in the labour markets at least 4 months' time/year).

According to Figure 1, there were two major changes in employment. On one hand, the share of permanently employed decreased between 1990 and 1994, and correspondingly the share of non-employed increased. The increase in the employment demand thereafter seems to have had a knock-on (domino) effect on the group of the permanently employed. In 1990, the share of this group was 80%, decreasing to 60% in 1994 and then increasing to 70% in 1998. The share of insufficiently and under-employed remained unchanged at about 15% throughout the observations. The share of the group of non-employed

varied according to the labour demand but not in a similar way as the employment of the permanently employed. Employment increased also in this group, but it did not reach the previous employment level of 1990.

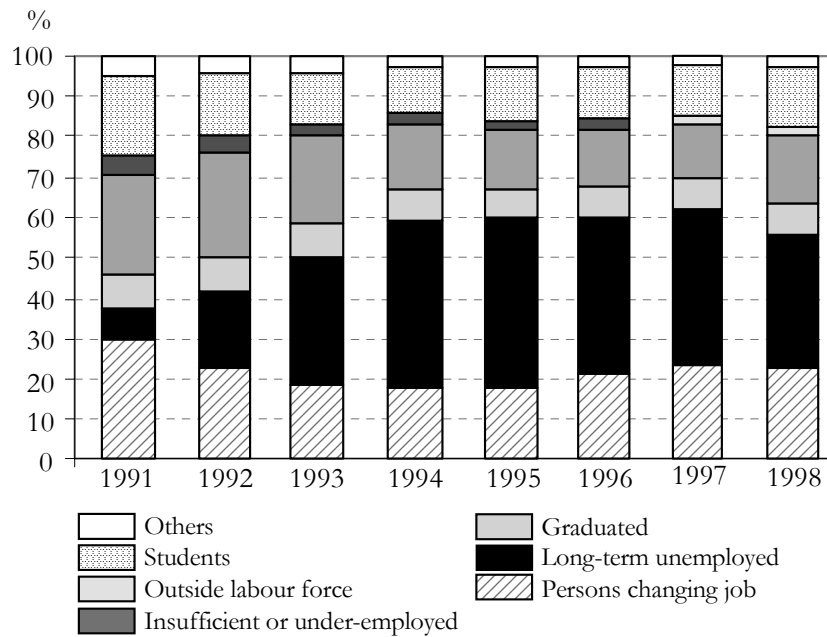
The results verify that the recovery of the economy led to the increase of employment measured in months worked, but the employment level of 1990 was never reached. The results verify also another interesting phenomenon, namely that the labour force was not polarised to the groups of labour rich and labour poor because the share of people who worked an average of 11.8 months/year was, even during the worst times of unemployment, over 60%, and in the aftermath of economic recovery increased to 70%. The polarisation hypothesis may hold true if one considers the number and share of temporary employment contracts, but it does not hold true if we look at the volume of months worked.

#### *Size of Competing Groups in the Labour Markets*

But, how did this increase of labour demand reach the different groups of competition? Did employment increase similarly for each group of competition or were some groups more successful than others? To be able to estimate the competition taking place in the labour markets, it is important to know the size of the competing groups and whether the size and composition of the groups change over the years.

Figure 2 verifies that in the early period under survey, 1991, the largest competing group (30%) consisted of those changing jobs. After 1993, the relative proportion of this group declined and stabilised at a level of approximately 20%. There were more persons changing jobs among the men than among the women irrespective of economic trends. Regional differences are considerable in the size of those changing jobs. For example, in 1991 in the Lahti region, almost 40% of the men and 35% of the women competing in the labour markets were persons changing jobs. On the other hand, in the urban region of Joensuu, the number of people changing jobs was less during the entire period under survey than in the other urban regions. In the urban region of Kokkola the differences between the sexes were greater than elsewhere, which emphasised the proportion of men of those changing jobs. Those who change jobs are an interesting group because the average age in this group is higher than the average age in the other groups, being about 40 years of age, during the whole period under survey, both for men and women. On the other hand, the standard of education was higher in this group than in the other competing groups. The proportion of persons who have passed the higher

intermediate level of education and those who have taken the higher Bachelor's degree was especially pronounced as regards this group.



**Figure 2.** Relative sizes of competing groups applying for jobs on the labour markets in the urban regions studied from 1991 to 1998

In the early period under survey, 1991–92, the second biggest competing group was the insufficiently and under-employed, whose share was about 25% to begin with, later dropping to below 20%. There were no significant differences between the sexes as regards the size of the groups. In the regional examination, the urban regions of Joensuu and Kokkola differed from the others in that in these regions the group of insufficiently and under-employed was bigger than in the other regions. In Kokkola, women constituted a majority of the insufficiently and under-employed. In 1991, the average age of the insufficiently and under-employed was 31 for men and 33 for women and it was increasing by a couple of years during the year under survey. Thus, the average age in the group was considerably lower, by 5–6 years, than the average age of those who change jobs. In the group of insufficiently and under-employed, the standard of education was usually lower than in the other groups. This standard was lower more for the long-term and repeatedly unemployed than for the insufficiently

and under-employed. Of the insufficiently and under-employed more than 35% had a lower intermediate degree of education.

Between the years 1993–95, the group of long-term and repeatedly unemployed became the largest group of competition and had grown more than eight times in size. In the years 1993–96 the long-term and repeatedly unemployed formed approximately 40% of those competing on the labour markets. Men form the majority in this group, but the differences in the sizes of the gender groups were levelled out in 1997 and 1998, the group being reduced in size at the same time. Regional differences are noteworthy in the size and development of the group. For example, in 1998 in the urban regions of Kokkola and Lahti the proportion of long-term and repeatedly unemployed grew more among women than among men, although the number of unemployed was reduced. The average age of those belonging to the group of long-term and repeatedly unemployed was between 38 and 40 years. Women were a couple of years older than men. The standard of education was lower in this group than in the other groups during the entire period under survey.

The fourth biggest competing group was those seeking their way into the labour markets as students. The proportion of students to all competing groups varied on both sides of 15%. There was more participation by female students in the labour markets than by male students, and as regards the urban regions, it was a more common phenomenon in the big urban areas of Oulu and Tampere than in the other urban regions. The year 1991 was an exception, because the group of students was unusually large that year, 23% of those taking part in the competition for jobs being women. As regards age, those belonging to the group of students were the youngest of all, the average age being in the 23–25-age bracket. As to education, almost one-half of those belonging to the group usually had an all-round higher intermediate level educational degree, but, as of that time, no professional or higher intermediate level degrees. Thus, this group participated in the competition for employment on the basis of an all-round educational degree.

The fifth biggest competing group was comprised of those who had recently graduated. Their proportion to all competing groups varied between 6% and 7% for men and between 9% and 10% for women. Regional differences were less noteworthy than the variation in terms of time. The average age of the recently graduated was 24 years for men and 26 years for women. The standard of education was higher in this group than in the other groups, which was indicated especially by the numbers of persons who had taken higher intermediate level and lower university degrees.

The sixth biggest group of competition consisted of those seeking employment from some other position. The relative proportion of the group Others decreased from 5% to 3% during the year under survey for both men and



women. The average age of men belonging to this group was 30 and the average age of women was 33. In this group the standard of education was higher than, for example, in the group of insufficiently and under-employed or in the group of long-term and repeatedly unemployed. More often than in the other groups, those belonging to the group Others had received all-round education at the higher intermediate level.

The seventh group, consisting of those coming from outside the labour force, was also quite small. It formed about 3% of the men and 5% of the women participating in the competition. During the period under survey, the proportion of this group became smaller both among men and women. Regional differences were insignificant in regard to the size of the group, but on the other hand, the average age of men and women belonging to this group varied greatly by urban region. For example, in the smaller urban regions of Kokkola and Joensuu, the average age of men was higher than that of women, but in the other urban regions it was usually higher for women than for men. Those coming to the labour markets from outside the workforce were usually in the 33–35-age bracket and their education was of an average standard compared with the other competing groups.

#### *The Likelihood of Obtaining Employment*

By sampling for the survey set such persons who come to the labour markets from the same region and during the same time and by placing side by side those changing jobs, those ending long-term unemployment, those graduated, those who had been insufficiently employed or under-employed, those seeking employment from outside the labour force, etc., it is possible to compare whether there are any essential differences between the groups in how people belonging to these groups have obtained employment. One might assume that those recently graduated would find employment more easily than those who are still studying, unless the graduates make greater demands than the students on their employment. Another possible assumption is that those coming from outside the workforce are employed better than the others, e.g. for the reason that among them there are many of those who have been in employment relationships before maternity leave, military or civil service, sick leave, etc. and who thus, when returning to the labour markets, have the right to resume work with their previous employer. Adult students may in fact have this same right when, after a leave of absence for studies, they return to their previous employment, either with or without a degree.

**Table 1.** The employment of persons in 1991 belonging in different competing groups in 1990–91

Employment	Changing Jobs		Long-term and repeatedly unemployed		Graduated		Insufficiently and under-employed		Coming from outside the labour force		Students		Others	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Perm. Empl.	4002	100	44	5	204	18	609	19	99	16	296	11	93	14
Insuff. Empl.	-	-	55	6	306	25	807	25	92	15	704	27	114	17
Under-Empl.	-	-	329	34	315	23	742	23	158	26	1079	41	190	29
Non-Empl.	-	-	534	56	327	34	1100	34	258	43	555	21	263	40
Total	4002	100	926	100	1152	100	3258	100	607	100	2634	100	660	100

- According to the survey, persons changing jobs, found permanent employment.<sup>1</sup>
- Of the long-term and repeatedly unemployed, only 5% obtained permanent employment and as many as 34% belonged to the group of under-employed. Of them, 56% were classified as non-employed and 62% were men.
- Of those who had recently graduated, 18% were permanently employed, 25% were insufficiently employed, 23% were under-employed and 34% were non-employed.
- The second largest group consisted of the insufficiently and the under-employed, of which 1% were permanently employed, 25% were insufficiently employed, 23% were under-employed and 34% were non-employed. The share of men was 57%. Thus, the probability of someone of this group being employed is the same as for the group of those recently graduated, but the former group was three times bigger in size than the latter. This is worth noting because the average age in this group was higher and its standard of education was lower than for those recently graduated. One explanation for

<sup>1</sup> Those belonging to this group were employed full-time in the year under survey for 10–12 months, since according to the definition used, only employed persons changing jobs were regarded as belonging to the group. In a survey over several years, the number of months in employment decreased somewhat also in this group.

the relatively good employment may be found in the good networks in the labour markets of those belonging to this group.

- Of those coming from outside the labour force 16% were permanently employed, 15% were insufficiently employed, 26% were under-employed and 43% were non-employed. The probability of employment for men and women was otherwise similar, but the most essential difference was in that the proportion of unemployed was only 39% for women and 47% for men.
- Of those who carried on studies while working 11% were permanently employed, 27% insufficiently employed, 41% under-employed and 21% non-employed. Men were employed in equal proportion to women. The share of the under-employed indicates that students working while studying are thus a noteworthy group competing for jobs.
- The “Others” group was also small and internally very heterogeneous, but the probability of employment for this group was nevertheless better than for some of the other groups. Of those who belonged to the group Others, 14% were permanently employed, 17% were insufficiently employed, 29% were under-employed and 40% were non-employed. When comparing the employment of this group with the other groups, such as with the long-term and repeatedly unemployed, it should perhaps be kept in mind that the average age of this group was about 10 years younger and there were less of those in the group who had only a lower intermediate level educational degree than in the group of long-term and repeatedly unemployed.

The one-year follow-up clearly indicates that employment varies essentially according to one's position in the competition. It is surprising that the employment of those belonging to the group of recently graduated and insufficiently and under-employed was structurally similar. Of those belonging to these groups, almost 50% were in work for a part of the year only. The fact that of working students as many as 40% belonged to the group of under-employed and 20% to the group of non-employed indicates that the students constitute a significant group competing for jobs and a significant segment of the labour markets. As was expected, the employment situation for the long-term and repeatedly unemployed seems difficult.

But in much the same way as it has been emphasised here that the employment of the unemployed depends on the behaviour of the other groups competing for jobs, it should also be emphasised that the possibilities of becoming integrated into the working life may change also in regard to time and place. From this point of view it is in fact interesting to consider whether the positions and combinations in the competition will remain the same when surveying the matter for the years 1991–98.

*Variation in the Likelihood of Obtaining Employment Over Time*

The previous section was a description of how people belonging to different labour market positions during the years 1990–91 had become employed in the year 1991. It gave an overall view of competition on the labour markets and of group-specific transitions. The comparison shows that movement takes place continuously on the labour markets and that the unemployed are a noteworthy group, albeit only one group, which competes for jobs. An analysis of flows provides a more accurate view of the dynamics of the labour markets and of the position of the unemployed on the labour markets, but the view will probably become even more accurate when examining the transitions over time. It is a foregone conclusion that changes in the size and employment status of competing groups will affect the probability of individuals from these different competing groups to become employed.

The follow-up for the years 1991–98 indicates that the number of months of work performed increases along with the improvement of employment in general. The number of months in work increased along with an improved employment situation, but this did not affect all groups in the same way. There several significant developments in employment (Table 2):

- In 1994, the number of the permanently employed began growing and the number of non-employed began falling in all groups competing for jobs. However, the number of months in work seems to be divided in different ways within the competing groups.
- In the groups of long-term and repeatedly unemployed, the non-employed and the under-employed remain the largest groups, although in 1997 the number of those permanently employed grew to 19% of those belonging to this group.
- For those recently graduated, employment improved more than for other groups, but in addition to an increase in the number of those who had been in work the whole year, there was also an increase in the share of insufficiently and under-employed up to 1996. Thereafter, employment grew in such a way that growth only occurred in the number of permanently employed.
- The increase in the number of months in work in the competing group of insufficiently and under-employed was divided in such a way that the share of those in work for only a part of the year began diminishing from 1991 onwards, and beginning in 1995, the share of those in permanent work was the largest, being close to 60% in 1997.

**Table 2.** The employment of persons belonging to the different competing groups during one year of follow-up in 1990–98

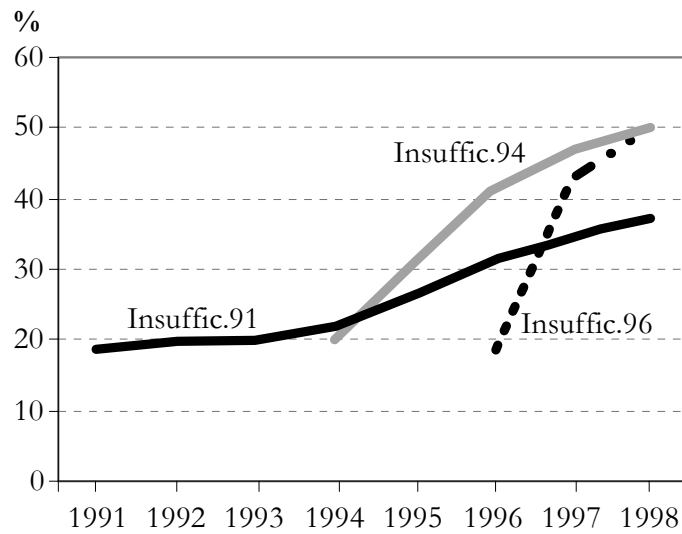
	<b>Long-term and repeatedly unem- ployed</b>			<b>Graduated</b>			<b>Insufficiently and under-employed</b>					
	Employed	Insuff. empl.	Under- empl.	Non-empl.	Employed	Insuff. empl.	Under- empl.	Non-empl.	Employed	Insuff. empl.	Under- empl.	Non-empl.
1991	4.6	5.7	34.2	55.5	17.7	26.6	27.3	28.4	18.7	24.8	22.8	36.8
1992	3.4	4.8	25.5	66.3	10.2	22.1	24.6	43.1	14.5	20.8	20.5	45.0
1993	3.7	5.0	17.5	73.9	11.2	17.4	21.7	49.7	16.8	17.1	16.1	50.0
1994	6.0	6.0	16.2	71.8	13.1	17.8	18.5	50.7	19.4	19.4	16.7	44.5
1995	9.4	6.5	15.3	68.7	15.8	21.8	23.5	38.9	21.7	21.5	18.5	38.3
1996	9.2	7.4	19.1	64.3	18.1	23.3	23.7	35.0	25.1	23.6	18.7	32.6
1997	12.3	8.4	15.7	63.5	19.9	26.7	24.4	29.6	29.8	24.5	16.1	29.5
1998	8.1	8.3	16.5	67.1	15.7	29.7	26.4	28.3	21.1	30.5	18.2	29.2

	<b>Coming from outside the labour force</b>			<b>Students</b>			<b>Others</b>					
	Employed	Insuff. empl.	Under- empl.	Non-empl.	Employed	Insuff. empl.	Under- empl.	Non-empl.	Employed	Insuff. empl.	Under- empl.	Non-empl.
1991	16.3	15.2	26.0	42.5	11.2	26.7	41.0	21.1	14.1	17.3	28.8	39.9
1992	9.5	11.7	19.4	59.4	8.0	21.3	35.9	34.8	7.7	10.2	22.2	59.8
1993	9.6	14.6	21.6	50.0	8.5	17.9	33.7	39.9	6.7	6.6	18.0	68.7
1994	11.8	12.7	24.3	51.2	10.8	18.3	36.1	34.7	8.3	10.2	17.0	64.4
1995	15.1	12.6	25.6	46.8	13.3	20.7	35.8	30.2	14.0	12.1	18.2	55.7
1996	14.6	14.6	29.0	41.8	14.3	24.6	37.4	23.8	15.3	16.3	21.1	47.3

- For those coming from outside the labour force, employment improved during the entire period under survey, but the share of under-employed remained largest in this group up to 1997, by which time the number of those in work all year grew to become the largest, rising to 40% of the employed in this competing group. A similar trend can be found among students and those employed from some other competitive position.

According to the results of this survey, the improvement in the demand for labour is reflected in all competing groups, but not at the same rate. For the individuals it was significant at which stage of the economic development they were made redundant or tried to get full-time employment. Figure 3 indicates that the insufficiently and under-employed, who were in this position either in the year 1994 or in the year 1996, managed much more quickly and more often to obtain permanent work than did their companions, who were of insufficiently employed or under-employed status in 1991.



**Figure 3.** The share of people who were insufficiently and under-employed in the years 1991, 1994 and 1996, but who obtained permanent employment thereafter

**Table 3.** The employment from 1991–1998 of persons belonging to the different competition groups in 1991

	Changed job			Long-term and repeatedly employed			Recently graduated			Insufficiently and under-employed						
	Em- ployed	Insuff. empl.	Under- empl.	Em- ployed	Insuff. empl.	Under- empl.	Em- ployed	Insuff. empl.	Under- empl.	Em- ployed	Insuff. empl.	Under- empl.				
1991	100	0	0	0	37410	37441	34.2	55.5	37453	37432	37341	37373	37454	37491	37489	33.8
1992	91	37347	37408	4	37351	37378	37332	71.8	34.7	37326	37512	38	37425	37386	37273	50.8
1993	81.9	37470	37289	37356	37442	37377	37418	78.3	34.7	37353	37510	43.9	37517	7	14	59.1
1994	77.6	37348	37439	37329	37382	37439	37415	79.2	39.6	37504	37478	41.7	37519	37504	37326	58.9
1995	75.3	37501	37439	37362	37323	37289	37445	77.9	46.6	37351	37265	36.9	37371	37352	37266	55.2
1996	75.9	37289	37378	37392	37417	4	37476	74.6	53.1	37352	37296	37343	31	37353	37477	49.9
1997	75.6	37500	3	37424	37510	37471	37444	73.9	58.9	37292	37505	37282	34.9	37322	10	46.8
1998	74.8	37258	37500	37333	37389	37471	9	71.7	59.8	37321	37382	37370	37	37353	9	45.6
<b>Coming from outside the la- bour force</b>																
<b>Students</b>																
1991	37330	37301	26	42.5	37297	37340	41	37276	37269	37331	37495	39.9				
1992	28	37412	37449	51.8	37422	37326	37275	51	37424	37443	37424	55				
1993	37310	37410	37504	64.3	119	37506	37450	57.5	37304	37290	37385	67.1				
1994	37429	37379	37265	61.9	37398	37444	37359	53.5	37515	37291	37447	65.3				
1995	37464	37411	37262	58.7	31.6	37295	37448	46.6	37367	5	37266	61.5				
1996	35.8	37411	37264	49.6	39.5	37507	37509	38.7	37372	37381	37416	55.5				
1997	37.6	37473	37294	47.5	48.3	37265	37296	37467	37406	37472	37415	53.2				
1998	41	37261	37506	44	53.2	37384	9	37342	33.6	37473	37447	47.9				
<b>Others</b>																

*Permanence of Employment in the Competing Groups*

The question of whether employment remaining permanent in all competing groups is a special issue. Even though the recently graduated, and the insufficiently employed and the under-employed had a similar probability of ending up in full-time employment, it can be assumed that their employment will differentiate in the long run, because the persons belonging to these groups have different preferences or competitive positions in the labour markets. It can also be assumed that the number of months in work for students will increase as the demand for labour increases. Because students work in addition to studying, they will remain in the group of insufficiently employed or under-employed, because this may be in line with their labour market strategy. It can also be assumed that after a transitional phase of a year or two the recently graduated will move over from the group representing insufficient employment and under-employment to the group representing full-time employment, the length of the transitional period depending on the line of education and on the employment situation (cf. Kilpeläinen, 2002). Under these circumstances, it may be assumed that their months of employment will increase more quickly than for the other groups after a certain transitional phase.

When evaluating the permanence of employment in the years 1991–98 by persons belonging to the different competing groups in the year 1991, the following results were obtained (Table 3):

- Employment was stable for those changing jobs, with 75% of them remaining in the group of permanently employed during the entire 8-year period, and the decrease in the months of employment indicated a transfer to the group of non-employed, whose share was about 20% in 1998.
- Employment increased, although gradually, for the long-term and repeatedly unemployed. After eight years, only 15% of those belonging to this group were in permanent employment, whereas more than 70% were non-employed. The group of insufficiently and under-employed was small, about 15%.
- The share of recently graduated persons in employment grew steadily during the whole period of survey in such a way that after four years of survey more than half and in the final year (1998) 60% of the recently graduated belonged to the group of permanently employed while 25% belonged to the group of non-employed.
- Employment for the insufficiently and under-employed and for those joining the labour markets from outside the labour force developed in the same direction, showing a rising trend during the entire period of survey. In 1998, about 40% of those belonging to both groups were in work for 10–12



months on an annual basis, whereas the share of the non-employed settled at a level of 45%.

- Employment improved for those working in addition to their studies. In size, the group is twice as large as the group of graduates and one-half of the group of long-term and repeatedly unemployed. In spite of this the share of people obtaining permanent employment from the group of students was twice as large compared with the graduates and ten times larger than the number of those obtaining employment from the group of long-term and repeatedly unemployed.
- Employment also improved during the period of survey for those in other positions. Of those belonging to this group in 1991, 34% were in the group of permanently employed while 48% were in the group of non-employed during that year. Although the group was smaller in size than the group of long-term and repeatedly unemployed, more people transferred from this group to the group of permanently employed.

Summing up, we can say that, the number of months in employment increased from 1991 to 1998 for all competing groups, but the recently graduated and the students seem to have been more fortunate in regard to the improvement and permanence of employment. On the other hand, the results show that the improvement of employment was a rather slow process.

#### *Exit From Long-term Unemployment*

As regards the exit from long-term and repeated unemployment, the modern welfare state provides the unemployed with various routes of exit. The integration into open labour markets, either in full-time employment, in a temporary employment relationship, in part-time work, in self-employment or in co-operative work, already includes several alternatives as such. In addition, the unemployed may end up in some form of subsidised employment, such as work subsidised by labour policy measures. In addition, the unemployed may end their unemployment by leaving the labour force for a certain or partial time or definitely (training, part-time benefit, job alternation leave, part-time pension, pension, time off for nursing infants, sick leave, etc.). In principle, all these choices are possible on certain conditions (age, right to benefits, etc.) and all these are known to affect the welfare and livelihood of the individual. According to Mattias Strandh (2000), in Sweden the exit from unemployment into a permanent employment improved the well-being and income of the unemployed more than did obtaining temporary employment. Ending up in training of longer duration (university education) increased the well-being and incomes more than

ending up in training of short duration. And ending up in time off for nursing infants increased the well-being and incomes more than ending up in disability pension or unemployment pension. All this indicates that the unemployed may have different preferences in choosing exit routes from unemployment.

When, from 1992 to 1998, we followed the labour market positions of people who had been long-term and repeatedly unemployed in 1991, it was discovered that although employment improved slowly, nevertheless 80% of the men and 70% of the women still belonged to the labour force in 1998. The most typical way to exit unemployment into employment were combinations of employment, unemployment, studies and domestic work. The fact that 28% of the men and 24% of the women had less than 4 months of work annually strongly indicates that in Finland the unemployed are strongly bound up with the labour markets. Is the reason for this that the unemployed are still actively seeking employment or that their income is strongly bound up with unemployment security?

**Table 4.** Labour market positions in the years 1992–98 of persons who were long-term and repeatedly unemployed in 1991

Labour market position	1992		1993		1994		1995		1996		1997		1998	
	Men	Wo-men	Men	Wo-men	Men	Wo-men	Men	Wo-men	Men	Wo-men	Men	Wo-men	Men	Wo-men
<i>12 months per year in the labour force</i>														
employed 10-12 <sup>1</sup>	30	20	4,7	3,7	8,2	6,1	12,9	7,1	15,4	11,2	19,6	13,3	22	15,3
employed 7-9	13,9	15,6	9,5	9,1	6,7	8,4	80	7,4	6,3	8,1	5,3	60	5,3	5,5
employed 4-6	12,7	12,5	80	4,8	6,5	5,9	6,8	5,8	7,9	6,9	7,1	6,1	6,1	4,4
employed < 4	27,3	21,5	35,4	36,5	40,6	30,7	34,6	29,2	32,8	27,8	30,1	25,9	28,1	24,1
<i>In the labour force and partly outside the labour force during a year</i>														
Student	4,6	5,5	4,9	50	10	1,9	0,8	0,9	0,8	1,5	0,7	1,7	0,7	1,1
Pension	1,4	20	10	1,7	0,2	0,7	0,4	1,3	0,3	1,3	0,5	1,4	0,4	1,3
Homework	0,6	1,9	0,4	1,1	21	20,4	18,3	19,4	17,6	13,9	16,4	16,2	17,4	154
Other	32,3	32,4	26,8	20,9	3,8	5,2	4,9	5,2	4,1	4,7	4,3	3,6	2,8	3,3
<i>12 months per year outside the labour force</i>														
All	4,2	6,7	9,4	170	12,1	20,7	13,3	23,6	14,8	24,5	160	25,8	17,3	29,5

<sup>1</sup> months/year

Table 4 clearly indicates that the careers of men and women are essentially different whether in employment of a permanent nature, in forms of insufficient employment and under-employment, in work for less than 4 months a year or in withdrawing outside the workforce. Men are bound up with the labour markets more strongly than women as measured by the number of months in work (Table 5).

**Table 5.** Months of employment and unemployment by gender in the years 1992–98 of persons who were long-term and repeatedly unemployed in 1991

Months in Employment							
	1992	1993	1994	1995	1996	1997	1998
Men	2.3	2.0	2.2	2.9	3.2	3.6	4.0
Women	2.4	1.5	1.9	2.0	2.7	2.9	3.0
Total	2.3	1.8	2.1	2.6	3.0	3.4	3.7
Months in Unemployment							
	1992	1993	1994	1995	1996	1997	1998
Men	7.8	7.8	7.5	6.7	6.3	5.8	5.3
Women	7.2	7.5	6.6	6.2	5.7	5.2	4.8
Total	7.6	7.7	7.2	6.5	6.1	5.6	5.1

This raises the question of whether the reason for this is that women who were long-term and repeatedly unemployed have poorer possibilities of again becoming integrated into the labour markets, whether they have other preferences or, furthermore, whether men and women who were long-term and repeatedly unemployed differ from each other in other ways, e.g. as regards their individual characteristics (age, education, etc.), family-related matters, and social characteristics. These might be thought of as being separating factors in regard to the question of who stays on the labour markets and who exits the labour force. However, a comparison of age did not produce any such significant differences between the groups. In 1991, the average age of long-term and repeatedly unemployed men was 35 years and the average age of women was 38.

As regards education, the differences were not so much in the level as between the lines of education. Men (41%) more often than women (35%) had only an intermediate level degree and, correspondingly, women had received an all-round education more often than men. The essential differences, however, were between the lines of education. This is indicated, for example, by the fact that of the men, 44%, and of the women, 13%, had professional degrees in the lines of technical and natural sciences and, correspondingly, 2% of the men and 16% of the women had degrees in other lines of specialisation.

## Conclusions

How the unemployed find jobs and whether they benefit from the open vacancies at the same rate as the other groups of job-seekers, are central issues in classic labour market research. However, no straightforward explanation has

been found to the question of why the unemployed are not employed, although the economy grows, new vacancies occur and there is mobility within the labour markets. In my opinion, there are both theoretical and empirical reasons for this gap of knowledge. The researchers have given biased prominence to such factors as the individual characteristics of the unemployed and the way in which they seek employment, while paying less attention to other affecting factors, such as points of view related to the community and the structure and functioning of the labour markets. Because of this, all essential factors have not been evaluated. This failure may be due to the fact that such data has not been available which could describe all the factors affecting the competition and screening taking place in the labour markets. It is not possible with the aid of existing statistics to do process or longitudinal analyses. The problem might be solved by acquiring material of one's own, but this is very laborious and expensive. This is why researchers usually have had to rely on limited case studies.

Register-based data provides a solution to the afore-mentioned problems concerning data. With the aid of registers it is possible to obtain data representing the entire population and to describe phenomena on the basis of their duration and repetitiveness. Registers allow one to describe the labour markets as a process, and not merely as a structural description based on certain points of time and cross-sectional situations. When studying employment after unemployment more as a process and according to the duration of phenomena than as an occurrence taking place at some points of time, a redefinition of the entire traditional system of concepts has been needed.

In fact a survey based on register data is changing our view of the labour markets and of its functioning. According to the results of this survey, it can already be stated that the labour markets as a social system is in constant motion and the employment of the unemployed is largely dependent on the position the unemployed will have in the competition and in the screening taking place in the labour markets. The analysis indicates that there are several competing groups on the labour markets who compete with the unemployed for jobs. The size and composition of these groups vary in regard to time and place and affect the competitive positions of those belonging to these groups. A time series analysis indicates that employment improved in all competing groups beginning in 1993. The probable reason for this is that the demand for labour increased. However, the improvement of employment did not affect all groups with the same strength nor at the same pace. The recently graduated and those obtaining employment as students and as persons insufficiently and under-employed appear to have been the most successful. The main portion of the increase in months of employment concerns these two groups. The group of long-term and repeatedly unemployed grew to become the biggest competition group, but the

relative share of people obtaining permanent employment from this group was the smallest of all competing groups.

The competition created by other groups searching for employment has an essential effect on the employment of the unemployed, but the competition also affects the functioning of the labour markets. It is interesting, as regards the functioning of the labour markets, that the group of people changing jobs is big and that employment for those belonging to this group seems to be very stable. However, the effect of people changing jobs may rather be accentuated in such a way that it brings about mobility in the labour markets and affects the labour market position of those seeking employment from other positions.

A local survey indicated that the unemployed people living in the urban regions of Oulu and Lahti have considerably better chances to obtain employment than those living in Kokkola or Joensuu. In a survey by gender, finding employment in, for example, the urban regions of Joensuu and Kokkola, which are less developed industrial regions, was more difficult for women ending unemployment and for recently graduated women than for men in the same groups. The growing demand for labour affected men to begin with, and only then after a delay of one year or two years it affected women. Many choices, such as using home care support, retiring on a pension after unemployment, etc., were features describing the labour market position of women more often than men.

All the results support the idea that during the 1990s the labour markets have changed both in structure and in their ways of functioning, which is connected to both changes in the demand for labour and also the process of regional differentiation. This provides topical interest for a discussion on ways of developing the employment policy with a view to improve its efficiency to help get the unemployed back into employment.

## 10 Short-term Employment – a Stepping Stone or Obstacle to Permanent Employment?

*Arja Jolkkonen and Pertti Koistinen*

### Introduction

Short-term employment had allegedly become more common, causing insecurity about employment and weakening the employees' status. Short-term employment refers to broken chains of temporary employment. The fact that short-term employment have become more common is significant as such, but the actual problem is that the arguments put forth have seldom been backed by sufficient and reliable research findings. The debate have been based on case studies of single companies, manufacturing industries or professional fields, but it cannot be said on the basis of case studies whether the phenomenon is common or becoming more common in other fields of enterprise as well, or is it related to business cycles.

A number of conceptual problems are associated with short-term employment. Other parameters, such as lack of job security, poor social security and low income, little chance of career advancement, and inconvenient working hours, are often associated with short-term employment, tending to cause conceptual confusion. Short-term employment is often associated with some of the above parameters, but the situation may also be reversed, or more contradictory, at least. Short-term employment may also be based on a voluntary agreement, and signify career advancement. Short-term employment may carry an equally good or even better salary than permanent employment.

Despite the fact that short-term employment became more common and the phenomenon created public debate on conditions of work, here is a great lack of information on it. This may be due to the small volume of research into the subject, the shortcomings of the research data, such as infrequent reference to representative and comprehensive research findings, or unsophisticated research methods. One obvious reason for the scarcity of research data is that researchers have not had access to data that could have yielded in-depth answers to complex problems. Conclusions about how common short-term employment is in the society cannot be drawn on the basis of material limited to certain groups, for example the unemployed, former employees whose jobs had been terminated, or job seekers entering the labour market after completing their studies.

The generalisation problems relating to case studies focussing on specific groups or situations have been alleviated by representative survey studies, for instance the labour and working condition studies of Statistics Finland, extensive questionnaire and the membership surveys of employee organisations. Besides opinion polls and interview surveys, a new tradition of labour market surveys based on data extracted from various registers is emerging. Data registers yield representative samples and enable the use of wide ranges of variables and longitudinal analyses. (Sutela, Vänskä and Notkola 2001; Suikkanen, Linnakangas, Martti and Karjalainen, 2001.)

This study focuses on the effects that short-term employment<sup>1</sup> has on the later employment prospects of the individual employee. We address the question whether short-term employment will mean better or worse employment prospects for the individual, or will it lead to a career of insufficient or under-employment? How does the employment rate of individuals in short-term employment react to economic trends? In terms of employment prospects, does employment of short duration have a different effect for the newly qualified, the long-term or repeatedly unemployed, or for those hoping to enter the labour market?

### **Previous studies**

Initially, the studies of short-term employment were mainly case studies of single enterprises, industries, trades or professions, and therefore they provided no basis for generalisations about how common the short-term employment trend was, to what extent that trend was becoming more prominent, and its potential links to business cycles.

There is a definite tradition of studying termination of employment based on contract, mass layoffs, and consequent employment prospects. These studies raised issues related to social selectivity and the difficulty of finding new employment. The studies gave rise to the argument that loss of employment at an age of fifty years plus threatens to cut off the employee's career, resulting in an endless round of short-term employment, unemployment, subsidised employment, and re-training. The studies on termination of employment looked at the temporary nature of employment and discontinuity as an aspect of a person's

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<sup>1</sup> In this study, the concept of short-term employment is supplemented with the term employment of short duration, as the data extracted from registers is not at its best in describing employment, but does cover the months worked and their dispersion over the calendar year.

career (Koistinen, Salin and Tikka, 1987; Alajärvi et al., 1990; Koistinen and Suikkanen, 1990; Jolkkonen ym., 1999; Heikkilä ym., 1993; Hokkanen ym., 1993; Linnakangas, 1997; Jolkkonen, 1998; Kurvinen, 1999). The message of this research tradition at the end of the 1980s and in the 1990s was that structural changes in the economy, corporate and business rationalisation, and technological innovations posed a threat to the individual's career prospects, and that long-term employment by the same employer would be replaced by short-term employment, which meant gaps in the career. In the early 1990s, instability of employment based on contract was primarily seen as a new feature of male career development, as it had been characteristic of female employment even in the past. The observations concerning Finland were similar to those originating in Great Britain (Allen, 1989), Sweden (Davies and Esseveld, 1988; Edin, 1988), Germany (Gerdes, Heseler, Osterland, Roth and Werner, 1990) and in other countries (Perrucci, Perrucci, Targ and Harry, 1988; Hunnius, 1988).

Studies of the integration of young adults into the labour market form another solid research tradition. The occupational mobility of young people entering the labour market – i.e. frequent changes of occupation and employer – has been considered a natural, rather than a peculiar event, and a necessary feature of their career development. Later on the emphasis in studying the integration of young adults in the labour market began to shift to the instability of employment, as the time spent in education or training grew longer, and the stage of entering the labour market was extending and turning into years of uncertainty. In terms of career advancement, the first three years in the service of a new employer are the most significant ones, because young employees will most likely, and most frequently, change job or occupation, or change employer, during this period (Granqvist and Persson, 1997). Occupational mobility has generally been more common and lasted longer among men than among women. In Finland researchers studying young people's lives, education, and unemployment have noticed the extended period required for young people to gain a foothold in the labour market (1999 membership survey of Akava, the Central Organisation of Professional Associations in Finland; Nyssölä and Pajala, 1999; Parjanne, 1997; Tapionlinna, 1999; Viinämäki, 1999; Suikkanen, Linnakangas, Martti and Karjalainen, 2001; Kilpeläinen, 2001; O'Connell and Russell, 2001). Even on this issue, Finnish researchers have arrived at the same thesis of the increasing instability of employment, as suggested by research results in other countries (Detzel and Rubery, 1998; Hammer, 1996; Lewis and Shopley, 1998).

The third approach comprises studies into the commonness and increasing frequency of short-term employment. According to Kauhanen's (2001) findings, the share of short-term employment appears, indeed, to have increased in Finland during the years 1993 to 1997, this trend having reached its peak in



1997. Before that, from 1989 to 1993, the share of short-term employment dropped, as companies retrenched staff during the severe recession, beginning with temporary staff. After the year 1997, the rate of increase has slowed down, and even decreased slightly. The decreasing share of short-term employment affected primarily men. This was because the economic growth had stabilised earlier in the private sector, whereas the municipal labour market, which provides employment for large numbers of women, continued to apply its policy of short-term employment.

The use of short-term employment in the municipal sector is caused by the weak economic situations of municipalities and the fact that the supply of labour in the market still exceeds the demand in most municipalities. Forms of subsidised employment have enabled municipalities to continue applying the policy of short-term contracting for example in hospitals and in social services, and receiving salary subvention for the purpose. This has resulted in short-term employment being more frequent in municipal education, social and health care occupations that have high proportions of female employees (Kauhanen 2001), and in isolated fields where the supply of labour exceeds the demand in keeping with the so-called monopsony hypothesis (Koistinen 1999, 231). In 1997, the share of short-term employment of the total labour force in the public sector rose by 20%, and in the private sector as much as 10% (Kauhanen, 2001, 11). In some fields and organisations, in hospitals for example, the share of temporary staff could be as high as 30 or 40 per cent of the total workforce.

Kauhanen's study (*op. cit.*, 11) shows that short-term employment concentrates on the youngest age groups, thus occurring mainly early in individual careers. A new category, consisting of workers whose careers were permanently characterised by stops and starts due to structural changes, gaps between jobs, and privatisation of services, and the growing use of freelancers for specific assignments, emerged in the 1990s parallel to the above. According to the working condition surveys of Statistics Finland, the most common kinds of short-term employment in 1997 were those for a fixed period (40%), locum-tenencies not leading to permanent positions (20%), and relief work (16–17%).

In their study based on employment and employee databases of Statistics Finland, Sutela, Vänskä and Notkola (2001, 101–102) provide estimates of the frequency of employment of individuals with a history of short-term employment. Research results indicate that the recession of the early 1990s had reduced the chances of finding employment by those employed for very short periods to such an extent that only every third worker in that category in 1990 had managed to secure their position in the labour market to the degree of being employed for more than 12 months five years later. The employment prospects of those who had been in short-term employment continued to improve as the

demand grew again. Inasmuch as short-term employment existed, a growing proportion of all short-term employees chose it voluntarily.

Opinions differ on the employment effects of short-term employment. According to one view, short-term employment leads to a steadier work career and improved employment prospects, whereas the opposing view believes that it leads to insecure careers and repeated unemployment. The models of labour force mobility, especially whether repeated short-term employment can act as a stepping stone to more permanent employment, have been insufficiently analysed.

The view that short-term employment can lead to permanent or relatively more stable employment emphasises the necessity of short-term employment as a response to changes in manufacturing processes on the one hand, and to the need for flexibility required by fluctuating demand on the other hand. Short-term employment has also been seen as a means for the employer to test the job seeker's suitability for the vacancy. Using short-term employment has enabled companies to out-source fluctuations and uncertainties in production, especially if continued demand is still uncertain, and if no competition for labour has arisen. The growing use of short-term employment has also been seen as a solution to the unemployment problem. This view is clearly evident in the employment strategies of the EU, for instance. Faith in the employment-promoting significance is so strong, that it can be seen to form the theoretical basis of the EU's employment strategies. (Koistinen, 1999, 104–107; Korpi and Levin, 2001, 128.)

The debate about the relationship between short-term employment and unemployment is of interest also sociologically, as short-term employment can be viewed as a factor of social stratification. It raises the question of the individual's position in the labour market and in the social strata. If short-term employment are assumed to lead to unemployment, they can be said to offer few opportunities and many risks, including limited chances of occupational advancement, little union support, and poor social security. Therefore, short-term employment could be delegated to the secondary labour market according to the segmentation theory. Whether or not short-term employment act as a stepping stone to more permanent employment, they are nevertheless a part of a searching and selection process resulting in differences in status between individuals (Korpi and Levin, 2001, 128–129). In other words, the questions how common short-term employment is, who is subjected to it, and what effects it has on the rate of employment and the society, has wider implications for the progress of society in general.

When assessing the societal implications of short-term employment, we should keep the micro and macro level hypotheses separate. At the micro level, the “stepping stone” concept includes the assumption that short-term employ-

ment can help the individual advance in the queue for permanent employment, since by accepting a short-term employment the unemployed person can move up the line towards better employment prospects. In this way the unemployed can improve their position in the queue, even if the queue does not get shorter. The micro-level effects can therefore be positive for those in short-term employment, although the employment remains the same on the macro level. Applied to the macro level, the argument that consecutive short-term employment are advantageous to the individual because of the employment opportunity they represent includes the assumption that short-term employment creates new job opportunities, thus reducing the unemployment rate (Korpi and Levin, *op.cit.*). That argument is very interesting in that regional differentiation has increased in the 1990s, and the need for new employment opportunities is particularly great in developing regions.

Short-term employment have proved more heterogeneous than was expected at the micro level. Some temporary jobs can function as a gateway in the internal labour market, while others cannot (Dale and Bamford, 1988). In some countries, the individual in short-term employment is eligible for some forms of social security as are the permanently employed, and under such circumstances short-term employment can be a rational choice by the individual under certain conditions or at some stages in his career (Delsen, 1995). Based on case studies (Gonäs, 1989; Sehlsted and Schröder, 1989; Nätti, 1993), temporary jobs can act as a route to more permanent employment, but their positive employment effects might become visible with a delay.

### **Research Data and Methodological Solutions**

The data was represents the entire working-age populations living in the urban regions of Joensuu, Kokkola, Lahti, Oulu and Tampere from 1990 to 1998 (see Jolkkonen and Kilpeläinen, *in this Vol.*). It is essential that according to the objectives of longitudinal analysis we aim at “flow analyses”, i.e. observe the changing status of the individual in the labour market. The longitudinal analysis of individual subjects lends itself well for the purpose, enabling us to follow the subjects, who were in short-term employment in 1990, for all of eight consecutive years.

In this study, longitudinal analysis also means that certain concepts, such as employment and unemployment, are defined in terms of their duration. With short-term employment, we refer to jobs lasting less than one year, as held by the subject during a calendar year. We classify as short-term employees all those

15 to 64-year-old wage earners<sup>1</sup> who were employed for less than a year, and who had not been excluded from the labour force during a specific year. Short-term employment can have many forms. First of all, the short-term employed could have been in gainful employment the whole year, but had several jobs during the year. The second category consists of the short-term employed who had only one job lasting less than a year in a specific year. The third category covers the short-term employed, who had several short-term jobs that together lasted less than a whole calendar year.

We assessed the employment-promoting effect of short-term employment in terms of changes in the monthly pattern of individual employment or unemployment. Improvements in the employment rate were assessed in terms of monthly averages of the pattern of individual employment or unemployment on one hand, and in terms of how the short-term employed were classified into categories indicating the duration of employment on the other hand. The fully employed, partly employed, underemployed and the non-employed.<sup>2</sup>

The social significance of short-term employment was analysed in the context of the individual's status in the labour market. As stated earlier, the significance of short-term employment to the individual varies with regard to their situation in life and employment prospects, depending on the person's status in the labour market when starting in a short-term job. Persons of dissimilar initial status in the labour market differ as far as their age, educational history, other personal characteristics and family ties are concerned. Short-term employment can follow permanent employment, long-term or repeated unemployment, or exclusion from the labour force, or various combinations of unemployment and exclusion from the labour force. In addition, short-term employment can occur during a course of study, or immediately after it.

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<sup>1</sup> All persons, who were in employment at least 4 months during the year, were classified as employed.

<sup>2</sup> We have delegated those employed into the following categories based on the duration of the phenomenon: The *permanently employed* covers those who were employed for at least 10 to 12 months during a calendar year, or for a minimum of 20 months during two consecutive years. The *partly employed* covers those employed for 7 to 9 months during the calendar year in question, or for a minimum of 14 months during two consecutive years, and at least 6 months of that time in the year studied. The *underemployed* covers those employed for 4 to 6 months during the year in question, or for a minimum of 8 months during two consecutive years, including at least 4 months in the year studied. The *non-employed* covers persons employed for 0 to 3 months during a specific calendar year.

We used mainly straight distributions, cross-tabulation and significance tests in the statistical analyses of our study data. These methods are suitable for use in analysing data, when the research data contains a representative sample, and a group of natural subjects (individual longitudinal data) is being analysed, as statistical methods are needed only for categorising the data, and to study the difference between categories, but not to test the results obtained with artificially created groups, for example. Defining the research data of database origins conceptually and operationally, utilising longitudinal data in flow analyses, and making sure that the variables were correctly defined and actually measured what they were expected to measure, played a far more decisive role in our study than statistical methods did. To overcome the limitations of discrete variables in longitudinal analyse we benefited the ideas of Marcovs chain.

## Results

### *Short-term Employment – how Common an Occurrence?*

When short-term employment was defined as employment lasting 12 months in terms of months worked, but consisting of several jobs, or employment lasting less than 12 months and consisting of one or more separate jobs,<sup>1</sup> we estimated that the proportion of short-term employed of the whole employed labour force in studied urban regions ranged from 20 to 29 per cent during the period of 1990 to 1998. In 1990, the short-term employed accounted for 25% of all the employed, but the rate had dropped to 20% in 1993, only to rise again to 29% in 1996, and to fall to 27% in 1997 and 1998. The number of short-term employed dropped during the recession, but began to rise again during the structural change and economic growth. Short-term employment was most common in the social services sector, and in industry, trade, and construction. Social services accounted quite clearly for the greatest proportion, exceeding 45% of all the short-term employed throughout the period covered. The proportion of social services from among all occupations involving short-term employment rose to its highest level in 1996, when it accounted for 64% of all workers entering

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<sup>1</sup> In this study, we used a narrow definition of a worker in short-term employment, as we included in that category only those members of the whole working-age population, who were employed for 4 months minimum during each calendar year, and who belonged to the labour force the whole year. We have also included those who were in labour market training, but not, for instance, those, who were on nursing leave for a part of the year.

short-term employment in that year, and 60% of those in short-term jobs even in the preceding year. Industry came second with a rate of 11%, followed by trade at 7%, and construction at 6%.

**Table 1.** Workers in permanent or short-term employment as percentages of the whole labour force from 1990 to 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Permanent employment	69.9	73.6	75.7	76.4	74.0	68.8	66.0	67.3	66.3
12 months of short-term employment	12.6	10.6	9.2	8.3	8.7	10.4	15.6	13.3	14.3
Short-term employment during full-time study	5.0	4.4	3.2	3.7	3.9	4.7	4.9	5.4	5.8
A short-term job lasting less than 12 months in	6.7	7.0	8.0	8.2	9.1	11.5	6.9	7.1	6.5
Short-term jobs totalling less than 12 months	5.7	4.5	3.8	3.5	4.2	4.5	6.6	6.9	7.1

Table 1 shows that short-term employment does not necessarily lead to insufficient or under-employment. Short-term employment covering a whole year was the most common type of such employment. Its share fell and rose clearly in line with the demand for labour. The business cycle is a significant factor in all forms of short-term employment.

Slightly more than half of the short-term employed were men. Women accounted for a majority of the short-term employed (56%) only in 1996, the first one of the two years when short-term employment peaked, the other one being 1998. Men were more numerous among the short-term employed, who continued to work in short-term jobs from year to year. This result, which contradicted our expectations, can be explained by the fact that both men and short-term jobs are plentiful in engineering, technology, and construction.

The short-term employed were mostly between 21 and 34 years of age, being in the early years of their working careers. This group constituted 51% of all the short-term employed in 1991. The second largest age group was the 35 to 44-year-olds, accounting for 26%, and the 45 to 57-year-olds formed the third largest group (16%). Later on, the proportion of the 21 to 34-year-olds began to fall, being 40% in 1994, while the share of 45 to 57-year-olds in short-term employment rose, reaching 25% of all those who had begun in short-term employment. This suggests that short-term employment was becoming increasingly a more common mid-career phenomenon. This trend was visible among the people who remained in short-term employment from year to year, their mean age being higher than among those who had started working in a short-

term job. From 1994, the rate of 45 to 57-year-olds continually in short-term employment rose to one third.

**Table 2.** New and continuing short-term employment by age group from 1990 to 1998

Age group	1991		1992		1993		1994		1995		1996		1997		1998	
	New	Cont.	New	Cont.	New	Cont.	New	Cont.	New	Cont.	New	Cont.	New	Cont.	New	Cont.
< 21	5.4	1.3	3.2	1.0	2.6	1.0	2.7	0.2	2.5	0.2	1.6	0.4	2.3	0.2	3.7	0.7
21-34	51.2	37.6	52.0	34.9	48.7	32.9	51.8	32.9	48.9	34.9	40.3	33.1	48.2	32.9	48.0	33.9
35-44	25.6	31.4	26.2	32.6	27.5	33.5	26.6	31.8	26.1	30.5	31.0	30.8	28.1	33.4	26.3	32.0
45-57	16.3	26.8	17.3	27.9	19.4	30.0	26.6	32.4	21.1	21.5	25.8	32.7	20.3	31.1	21.0	30.8
> 57	1.5	2.9	1.2	3.6	1.8	3.0	17.4	32.4	1.5	2.9	1.3	3.0	1.0	2.4	1.1	2.7

In terms of vocational qualifications of the short-term employed, 23% had qualifications in technology or natural sciences, 20% had nursing or health care qualifications, and 15% had a commercial, secretarial, clerical or social qualification. With reference to the level of training, as many as 28% of all the short-term employed had a basic secondary-education level qualification. About 18% had a vocational diploma or Bachelor's degree, i.e. a post-secondary level qualification, and 13% had a Master's degree. The considerable number of post-secondary level qualifications and graduates is because many of these qualifications relate to the field of social services, and because many government and municipal employers hire temporary staff. The educational history of the short-term employed has not varied significantly from 1991 to 1998.

#### *Duration and Recurrence of Short-term Employment*

According to our data, short-term employment appears to be primarily a temporary phenomenon associated with certain circumstances in life, and the individual's position in the labour market. In fact, in the majority of cases, short-term jobs terminated in one or two years from the year in which they started. In 1990 to 1993, when the overall quantity of short-term jobs decreased by almost 30%, they ended in the year immediately following the year in which they had begun for two-thirds of all workers involved. From 1994, the termination rate slowed down, but for the majority of workers in this category (over 80%), short-term jobs ended in the second year following the year in which they had begun (Table 3).

**Table 3.** Year of termination of short-term employment begun in 1990 to 1997

Year terminated	Year begun								
	1990	1991	1992	1993	1994	1995	1996	1997	
1991	65.4								
1992	17.6	73.1							
1993	6.2	16.7	75.3						
1994	2.8	4.7	14.0	75.9					
1995	1.7	1.7	3.9	13.2	70.8				
1996	1.4	1.0	2.1	4.3	15.6	73.3			
1997	0.9	0.7	1.4	2.1	6.1	12.7	71.5		
1998	0.5	0.6	0.7	0.7	2.7	5.5	14.2	68.0	
Continued in 1998	3.5	1.7	2.6	4.0	4.8	8.5	14.3	32.0	

In order to gain a clearer picture of the permanence and occurrence, we have designed a model based on longitudinal analysis to illustrate the flows within short-term employment.

The consequent employment histories – short-term employment vs. employment that is not short-term – of the individuals in short-term employment during the period from 1990 to 1994 were followed up for four years. The mere “yes” or “no” options as responses to short-term employment yielded 16 different alternatives for the four-year follow-up period. (Table 4.) These 16 alternatives, which should be read like the contingency table of Markovs chain, are shown in the left-hand columns of the table as 0 or 1 options, where 0 stands for “no short-term employment”, and 1 stands for “in short-term employment”. The percentages in the columns to the right show the percentage of subjects, who had begun in short-term employment in the year indicated, and had remained in short-term employment corresponding to the alternative specified in the left-hand columns, during the following four years. The follow-up covers five years in practice, four of which are consecutive to the year when short-term employment had begun. The analysis includes only the subjects, who remained in the labour force all through the follow-up period.<sup>1</sup>

<sup>1</sup> We defined the individual’s continued existence in the labour force as 4 months minimum per annum.



**Table 4.** Changes in the availability of employment for the short-term employed during the four years following the year in which their short-term employment had begun

Alternative	Follow-up years <sup>1</sup>				Year short-term employment had begun				
	1	2	3	4	1990	1991	1992	1993	1994
1	1	1	1	1	12.6	4.6	4.3	3.8	3.9
2	1	1	1	0	3.7	2.3	1.9	2.3	2.2
3	1	1	0	1	1.2	1.1	1.0	0.9	1.1
4	1	1	0	0	5.6	3.3	3.5	2.9	3.4
5	1	0	1	1	1.2	0.9	0.7	1.4	1.1
6	1	0	1	0	1.1	1.6	1.7	1.5	2.1
7	1	0	0	1	1.9	1.8	1.7	2.6	1.5
8	1	0	0	0	12.4	10.0	8.8	8.0	8.3
9	0	1	1	1	1.2	0.7	1.2	1.8	2.4
10	0	1	1	0	1.1	1.3	1.5	1.7	2.1
11	0	1	0	1	0.8	1.0	1.7	1.7	1.9
12	0	1	0	0	4.7	5.5	6.9	5.9	8.0
13	0	0	1	1	1.2	2.3	2.9	3.6	3.0
14	0	0	1	0	3.6	6.1	6.8	6.0	5.7
15	0	0	0	1	4.3	6.6	9.4	7.5	6.7
16	0	0	0	0	43.6	51.1	46.2	48.5	46.7

The table shows that the individuals who had begun in short-term employment in 1990, and who were followed up from 1991 to 1994, retained their short-term employee status more frequently than the others. Of those who had begun in short-term employment in 1990, 12.6% (alternative 1) remained in short-term employment during the whole follow-up period of four years, while 43.6% of this category (alternative 16) opted out of short-term employment completely. The individuals who had begun in short-term employment during 1991 to 1994 were clearly more fortunate, as only about 4% of them stayed permanently in short-term employment, and a greater proportion opted out completely. The result can be narrowed down to three principal observations:

<sup>1</sup> The employment of the short-term employed has been followed according to their positions in the four following years. This method of analysis can be compared with the idea of Marcovs chain (see Mooijaart, 1998, 340–349).

- During the four follow-up years, 65% of the subjects in this analysis became fully or nearly free from short-term employment. The year 1996 was the only exception to this rule, as two-thirds of the subjects who had first entered short-term employment in the year 1992 had become fully or nearly free from short-term employment.
- Of those who had begun in short-term employment in 1990, 19% remained completely or nearly the whole follow-up period of four years in short-term employment, but the corresponding rate for short-term employment beginning in later years dropped to under 8%.
- Of those in short-term employment in 1990, 14% continued to work on and off in short-term jobs, but the corresponding rate rose to 20% in the consecutive follow-up years.

The results are very interesting but, the question remains whether there are any differences associated with the process of staying in short-term employment or opting out, as far as field of endeavour, educational qualifications, gender, or individual characteristics are concerned. The analysis based on field of endeavour showed that the majority (56%) of those, who had begun in 1994 and continued for four years in short-term employment, were employed in the field of social services. Industrial occupations came second (13%), transport third (13%), and trade fourth (7%) among the sectors providing short-term employment. In the field of social services, the series of short-term employment could often continue for five years, whereas they tended to end in the following year in most other sectors. For example, 76% of the short-term employed in the fields of electrical, gas or water supply services, 68% of those in the financial sector, and 60% of those in industry and transport, ended in the same year as they had begun, whereas the corresponding rate for the field of social services was only 35%. This gives reason to ask, were the short-term employed being used as a permanent source of labour in the field of social services? In other fields, such as the electrical, gas or water supply services, or those in the financial sector, short-term employment was used as a first step in staff recruitment.

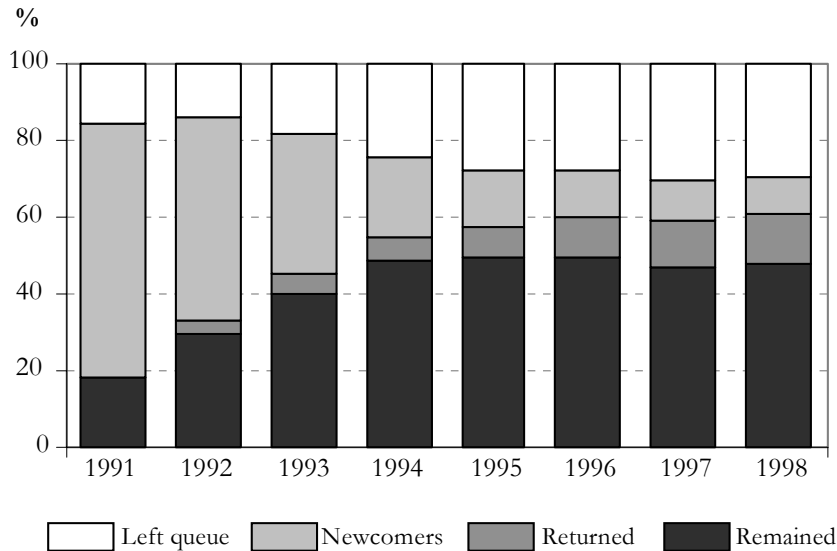
We found that the persons remaining in short-term employment the longest represented the following categories: those who first started in a short-term employment in 1994, or had qualifications in technology or natural sciences (26%), had commercial, secretarial, clerical or social qualifications (17%), or had qualifications in nursing or health care (16%).

Personal characteristics, for example age and sex, also contributed to a prolonged career of short-term employment. Those in the 21–34 and 35–44 age groups stayed quantitatively and relatively the longest in short-term employment. The same age groups also included the largest number of those remaining in short-term employment for five years. All in all, two-thirds of all short-term employed belonged to these two age groups. It seems that workers remain in

short-term employment the longest at the stage when they should become settled in their careers. For those, who continued to work in short-term jobs, this only means that they had made a career of short-term employment, often in the field of social services, and in organisations where the employer is the state, a municipality, or a limited liability company. Women stayed in short-term employment longer than men.

*Can One Advance in the Employment Queue by Taking on Short-term employment?*

Just as a springboard gives momentum, short-term employment can give momentum to unemployed individuals' progress in the queue for employment, although the queue itself might not become shorter. To test our theory we constructed a queue of the unemployed from our longitudinal data. The individual was defined as being unemployed if he or she had been unemployed for at least 6 months of the year. We defined the starting point of the queue as 1990, so that from 1991 it was possible to distinguish the newcomers to the queue from those who remained, returned or left it (see Figure 1). During the early years of 1991 and 1992, the unemployed waiting in the queue were mostly newcomers; all of 78% in 1991, while newcomers accounted for 61% in the following year. The queue had begun to grow just then in 1991 and 1992 because of the recession. The unemployment rate had increased five-fold from 1990 to 1994, when the queue was at its longest. Still in 1993, 44% of those waiting in the employment queue were newcomers, but as of 1995 newcomers to the queue made up less than 20% annually. From 1995 onwards, the queue began to shorten at an annual rate ranging from 6% to 10%.



**Figure 1.** Changes in the queue for employment during 1991–1998

The time spent in the queue has been calculated in years,<sup>1</sup> beginning in 1990, for those who remained and for those who left the queue. Table 5 indicates that seventy-eight per cent of those in the queue in 1991 had joined the queue during the year in question, while the rest had entered the queue either during the previous year or in preceding years. The time spent in the queue increased noticeably from 1994, when 64% of those in the queue had been there for at least two years. As of 1995, the relative proportions of those remaining in the queue, the newcomers, and the returnees levelled out to a little less than one-third for each category. The proportion of those who had queued for two to four years decreased a little from 1994 to 1998, whereas the proportion of those in the queue for more than five years grew. In 1998, three per cent of those in

<sup>1</sup> Those who have been in the queue since 1990 have been counted as having joined the unemployment queue in 1990, as there was no record of the length of their periods of unemployment before 1990. The unemployment period for those returning to the queue yet again, have been calculated separately for each period, so that those considered to have been a year in the unemployment queue include newcomers as well as returnees.

the queue had been unemployed for at least six months per annum in nine consecutive years.

**Table 5.** The unemployed queuing for employment during 1991–1998

Year	Total % of leav- ers	Time spent in queue before opting out									Years spent in the queue									Total % in queue
		-8	-7	-6	-5	-4	-3	-2	-1	1	2	3	4	5	6	7	8	9		
1991	100								100.0	78.1	21.9								100	
1992	100							13.6	86.4	65.6	25.5	8.9							100	
1993	100						4.8	18.3	76.9	50.6	29.8	14.0	5.3						100	
1994	100					2.1	8.7	28.4	60.8	36.0	29.1	20.0	11.0	4.4					100	
1995	100				1.7	5.7	15.0	31.2	46.7	31.5	20.5	19.0	15.0	9.5	4.1				100	
1996	100			1.6	4.8	11.1	17.0	23.0	42.9	31.1	17.3	13.0	14.0	12.0	8.4	3.8			100	
1997	100		1.3	4.2	8.0	12.5	12.0	20.2	42.2	31.9	16.3	11.0	9.7	10.0	10.0	7.5	3.7		100	
1998	100	1.4	3.7	6.8	7.5	8.5	11.0	19.2	42.5	32.4	16.4	9.9	7.1	8.0	8.1	8.2	6.6	3.0	100	

The increased length of time spent in the queue reflects also in the queuing times of those who left. From 1995, a little over 40% of those who left the queue had been in the queue for one year only, and about 20 % for 2 years. However, 40 % of those who left the queue had been in the queue for at least 3 years.

The significance of short-term jobs on the progress of those queuing for employment were analysed as follows: Those in the queue were divided into two categories: The short-term employed, who had been employed for at least 4 months of the year, and those that had not had short-term jobs. Table 6 indicates clearly that those who had been in short-term employment found permanent employment more easily than those who have not had short-term jobs, when employment was assessed in terms of accumulated months in employment. During the 1992–1998 period, about one-fifth of those in the unemployment queue were employed for at least 4 months each year. (Table 6.)

**Table 6.** Employment in 1991–1998 of the short-term employed, who were in the unemployment queue during 1991–1997

Year	History of short-term jobs in the first follow-up year	The average time spent in employment by those in the labour market (months)							
		1991	1992	1993	1994	1995	1996	1997	1998
1991	No short-term job	0.8	2.6	2.0	2.4	3.1	3.8	4.3	4.7
	Short-term job	5.1	3.5	3.2	3.6	4.3	4.8	5.3	5.8
1992	No short-term job		0.7	2.1	2.6	3.5	4.3	4.9	5.6
	Short-term job		5.1	3.3	4.3	5.1	5.9	6.3	6.9
1993	No short-term job			0.5	2.2	3.4	4.5	5.1	5.8
	Short-term job			5.0	4.0	5.3	6.2	6.8	7.4
1994	No short-term job				0.5	2.5	3.7	4.5	5.2
	Short-term job				5.1	4.7	6.1	6.7	7.4
1995	No short-term job					0.5	2.7	3.5	4.5
	Short-term job					5.1	4.9	6.2	6.8
1996	No short-term job						0.5	2.6	3.7
	Short-term job						5.1	4.8	5.9
1997	No short-term job							0.5	2.5
	Short-term job							5.1	5.2

*Contractual Mobility – the Trump Card of the Short-term Employed*

Employees can try to adjust to changes in the labour market by means of occupational, regional or contractual mobility. In this paper, we analysed contractual mobility that consists of changing jobs. Our data suggests that the short-term employed can have many jobs during a single year. More than 60% of them had two jobs in a year, whereas 17% of them had three or four jobs, 16% had only one job, and 5% had more than four jobs. Women were placed in the two-job category more often than men, who had typically either one job per annum, or three to four jobs, or even more in a year. The number of jobs increased during the transition period and that of economic growth, predicting that improvements in the employment were on the way. Hence, the short-term employed

with one job only in 1997, for example, had the poorest record of all in finding employment: only 35% were permanently employed, 31% were partly employed, and 34% were underemployed. The corresponding figures for those who had had two jobs in 1997 were: 89% fully employed, 6% partly employed, and 5% underemployed. When the number of jobs increased further, the employment rate continued to improve. Of those who had been employed up to eight times per annum, 83% had consequently found permanent employment.

**Table 9.** Employment rate in terms of the number of jobs held by workers in short-term employment in 1997

Number of jobs in 1997	Permanently employed (%)	Partly em- ployed (%)	Underem- ployed (%)	Sum to- tal (%)
1 job	34.6	31.4	34.0	100
2 jobs	89.1	6.2	4.7	100
3-4 jobs	85.5	11.0	3.5	100
5-7 jobs	85.0	12.0	3.0	100
8-10 jobs	83.0	14.0	3.0	100
over 11 jobs	79.0	17.0	4.0	100
Sum total	79.2	11.8	9.0	100

The result indicates indisputably that contractual mobility, which in this context was based on the changing of jobs, has improved the employment rate in terms of a growing number of months in employment. In this regard, short-term employment and its job-based flexibility have clearly enabled the individual to pass many others in the queue for permanent employment.

#### *Short-term Employment as Part of the Career*

Our findings suggest that the careers of those who ended up in short-term employment changed in line with business cycles. The stages in their careers at which the workers found themselves prior to short-term employment were determined on the basis of their status in the labour market during the three preceding years. In 1993, short-term employment was most often (32 %) preceded by three or two years of permanent employment, study towards a vocational or general qualification (17 %), a career of short-term employment (14 %), or long-lasting unemployment (11 %). In the late 1990s, short-term employment was more often than before preceded by one long period of unemployment or several shorter ones.

**Table 10.** Subjects ending up in short-term employment from various positions in the market during 1993–1998

The individual's status in the labour market before short-term employment	1993	1994	1995	1996	1997	1998
Three years in permanent employment	25.0	20.8	22.0	28.3	17.6	18.5
Two years in permanent employment	7.0	5.5	5.5	5.9	6.6	7.6
Young person without vocational qualifications	5.9	4.6	3.7	2.9	3.5	6.1
Recently qualified or still studying	17.0	18.0	17.9	16.7	19.6	20.4
Repeated or long-term unemployment	11.3	21.9	27.5	19.3	24.7	21.0
Excluded from labour force and working/unemployed	9.0	8.5	8.5	14.4	12.4	9.3
Excluded from labour force	1.2	0.6	0.8	1.7	1.0	1.2
Returning to short-term employment	14.2	12.0	8.0	8.5	12.0	13.3
Other	9.5	8.0	6.1	2.5	2.8	2.7
Sum total	100	100	100	100	100	100

The status of individuals in the labour market presumably affects their chances of competing in the labour market. The fluctuations in the demand for labour can also have affected individuals differently depending on their status in the labour market. One could assume that all workers in short-term employment, regardless of their former status in the labour market, would try to find employment for the whole year, but does the demand for labour apply equally to all groups in the labour market? We analysed the employment trends of those ending up in short-term employment by following up their subsequent employment histories. Table 11 illustrates the results of the largest categories of workers entering short-term employment in 1993.

Table 11 shows that workers, who took up short-term employment after several years of permanent employment, or returned to short-term employment after one or two years, accumulated the largest number of months at work. Those who had been excluded from the labour force also found work well, but their group was very small. The average number of months employed ranged from seven to eleven. Those who had experienced repeated or long-term unemployment accumulated the least number of months at work. Based on months of work, those returning repeatedly to short-term employment were in a slightly worse position than the workers moving from permanent to short-term employment, but competed on relatively equal footing with the newly qualified job seekers.



**Table 11.** Average number of months worked during 1993–1998 by persons of dissimilar status in the labour market, who first entered short-term employment in 1991 (the table includes only those belonging to the labour force in the specific year).

The individual's status in the labour market before short-term employment	Months worked in 1993	Months worked in 1994	Months worked in 1995	Months worked in 1996	Months worked in 1997	Months worked in 1998
Three years in permanent employment	10.9	11.1	10.8	10.8	10.8	10.9
Two years in permanent employment	11.3	11.0	11.2	11.0	11.0	11.0
Young person without vocational qualifications	9.1	8.2	8.0	7.8	8.2	9.1
Recently qualified or still studying	9.5	9.6	9.6	10.0	10.0	10.3
Repeated or long-term unemployment	6.8	6.6	7.0	7.1	7.3	7.6
Excluded from labour force and working/unemployed	9.1	9.6	8.9	9.2	9.2	9.8
Returning to short-term employment	9.7	10.1	9.5	10.0	10.8	10.8
From outside the labour force	9.3	10.1	11.4	11.6	11.3	10.7
Average	9.5	9.8	9.6	9.7	9.8	10.0

## Conclusions

Short-term employment became, in the latter half of the 1990s, the common feature of the labour markets in Finland. The phenomenon had become common earlier in many other countries. In the 1980s in many industries and fields of activity, resulting in labour retrenchments and layoffs, short-term employment was a typical feature following the termination of permanent employment. During the period of structural changes and the economic growth that followed the recession of the years, short-term employment became common and spread out to new fields of endeavour. While becoming increasingly common, it has altered labour markets structurally and functionally, and has had an indirect effect on the individual's status in the labour market and his well-being. Parallel to becoming a more widespread feature, short-term employment appears to accumulate in certain fields of business, occupations and stages in the workers' careers. The fact that short-term employment has become common in the field

of social services, and among people with vocational qualifications in the technical, commercial, nursing and health care fields, was a new development in the 1990s. Short-term employment has also spread out from the typical initial occupations, which acted as routes to employment for young, newly qualified persons, to occupations requiring many years of study, training and work experience. It means that, short-term employment has become a strategy to utilise labour, and a normal state of affairs in certain fields of business and occupations.

But, nevertheless short-term employment is not homogenous in character, because employment of short duration is subject to many terms and conditions, and it exists under various circumstances. One of the most surprising findings of our study was that two-thirds of all short-term employment end within one or two years of the year they started in. But, short-term employment could be a permanent feature if associated with an upward trend in the business cycle, having a tendency to accumulate in certain fields of business and occupations, and in some stages of individual careers. We found that short-term employment appeared to accumulate in the field of social services, and in vocational qualifications in the technical and commercial, and nursing or health care fields, and among workers between 21 and 34 years of age. In these fields some short-term employed remained in short-term employment for as long as five years or even longer. As a phenomenon, short-term employment is a sign of companies' changing business strategies, and of the fact that many socio-political systems, such as labour market programmes, directly and indirectly, are supporting the use of short-term labour. Based on our findings, it could be asked whether Finnish municipalities and the government became sponsors of a new model of employment based on contract in the 1990s, and in what way will the Contracts of Employment Act (55/2001), the recently enacted law of employment contracts, change this situation in the near future? The new act obliges companies to justify their decisions, should they continue to employ someone in a chain of short-term labour contracts for more than a year (KOM 2000:1).

It is also of interest from the perspective of Finnish labour market policy and the individual to know whether short-term employment constitutes a stepping stone or an obstacle to permanent employment. Within labour market policies, it is strongly believed that it can be a stepping stone, but many researchers and participants in the public debate suspect that it is rather a trap leading to wider social gaps in the labour market and in society. Instead of being pessimistic, our findings on this issue are actually surprisingly optimistic. Our findings suggest strongly that to the majority of employed short-term employment is a step towards more permanent employment. Especially the short-term employed who are continuously working, are in fact "full-time employed". Our study also shows that the number of months in employment increased faster for

short-term employed than those of the other groups who were competing with them for employment. The short-term employed seemed to pass many other unemployed job seekers in the queue for employment, as far as improved employment prospects are concerned. The positive effect short-term employment has on the employment seemed to vary according to the phase in the business cycle, line of business or endeavour, urban area, age, field of training, and gender of the worker.

Although short-term employment appears to be a stepping stone rather than an obstacle to permanent employment, this finding should challenge the politicians to carry out reforms in labour and social politics, instead of justifying a feeling of satisfaction on the political level. The very fact that so many short-term employed succeeded in finding employment for themselves thanks to their vocational and contractual mobility, would require that welfare systems, whether vocational education and training, employment and unemployment security, or the welfare services needed by the workers, support the short-term employed. As short-term employment becomes more widespread, it places growing demands for the development of new tax, unemployment and social security systems, as well as labour services. Companies operating in certain fields have opted for chains of temporary contracts instead of permanent contracts a tendency which poses a challenge for the implementation of the new Contracts of Employment Act. The new act is based on the principle that temporary contract is acceptable, but chains of temporary contract without due cause should be limited.

# 11 Resources and Labour Market Orientation of the Unemployed

*Arja Kurvinen*

## Introduction

How does unemployment affect the life of the individual and his chances of coping with unemployment and finding new employment? This classic question in social science research can be approached in a number of ways and viewed from many angles. Unemployment is often seen as a critical state with negative effects on the individual's subsistence, well-being, health, social relations, identity, social inclusion, and activity level. This so-called deprivation approach, which is based on theses developed by Marie Jahoda (1982) about the covert effects of employment for the individual, emphasises the feeling of powerlessness, the growing passivity, and the gradual accumulation of social problems arising from unemployment. The credibility of this argument has been questioned, for instance due to the fact that modern welfare states provide income security and support services associated with the risk of unemployment on one hand, and many avenues of self-fulfilment for the unemployed on the other hand. Attempts have been made to modify and clarify the notion originating in the deprivation hypothesis by taking into account the differentiation of lifestyles and living circumstances, and the powers or resources of individuals (cf. Nordenmark, 1995; Kortteinen and Tuomikoski, 1998).

The viewpoint emphasising the individuals' social inclusion and resources makes it possible to approach the subject with respect for the individuals and their integrity and competence. The unemployed must be heard. They must be seen as dynamic actors determining their own circumstances. This means also that we study what resources and powers the unemployed may have, and how they may use and develop these resources and powers (cf. Andersen, 2001). Approaches focusing on the human and social rights and resources of individuals share the assumption that although unemployment can be a serious problem, individuals have the necessary resources to find ways to survive it. Economic resources and adequate social security could be seen as significant conditions for the general welfare and social inclusion of the unemployed. In this context, criticism is levelled at the notion that employment would be the only effective medium promoting social inclusion, and that employment alone would boost

the welfare of the individual. How the individual experiences employment and unemployment varies depending on his personality, objectives and circumstances (cf. Vesalainen and Vuori, 1996). It is important to determine the individual's personal view on his circumstances, and to examine his chances of taking action to cope with unemployment and to find employment.

The employment programmes, which are targeted at the long-term unemployed and those at risk of social exclusion and aim at activating the participants and helping them find employment, often implicitly subscribe to the idea that unemployment has negative effects, thus perpetuating the above-mentioned deprivation approach. They define the unemployed as objects of action who should be integrated into society through employment. There is another, parallel approach, in terms of which the unemployed are seen as functioning subjects, who have the social rights to subsistence and to the services offered by society. With the aid of his social rights (social, income and education security and services, etc.) and his own resources, the individual has the opportunity to make decisions concerning his own life (Koistinen and Kurvinen, 2000). The concept of empowerment and the empowering approach are gaining ground in the employment projects aiming to support the individuals to find their own resources, but with the individuals' insights into their own lives ultimately being emphasised. In terms of this approach, measures and projects are believed to have many other functions in addition to boosting employment prospects, and the analysis focuses on the individual's own experience of both unemployment and the importance of the measures taken. (Pärssinen, 2000; Seppänen, 2002.)

The present article takes a look at the unemployed, who participated in the Labour Pool project implemented in the context of high local unemployment in North Karelia, focusing on a self-assessment of their resources and how those resources are linked with their expectations, targets and opportunities in the labour market. Furthermore, the participants' experiences of the re-employment project are assessed in relation to their resources, and the services, guidance and support offered by the project. The project participants' resources, labour market orientation and experiences of the effectiveness of the employment project, were studied through two surveys carried out in the years 2000 and 2001.

### **Resources of the Unemployed**

The effects of unemployment have been widely studied from many focal points within the disciplines of social policy, sociology, psychology, and the health care sciences. Unemployment has been seen as one of the most severe risks and crises in the life of a person. The negative effects of unemployment on the

individual's subsistence, social acceptance, and mental health have been demonstrated by research. Although this approach has been criticised in recent times for its alleged failure to take into account the complexity of modern society and labour markets, and the heterogeneity of the unemployed population, many studies have continued to substantiate the hypothesis of the negative effects of unemployment.

One of the main issues studied concerns the relationship between unemployment and subsistence. One approach has focused on unemployment and subsistence from the viewpoint of subsistence problems and even poverty, but unemployment together with subsistence has also been seen as an incentive to accept the work offered. Kangas and Ritakallio (1996) argue that unemployment had become the dominant risk for poverty despite the fact that unemployment benefits coupled with social security has ensured minimum subsistence for the unemployed, having prevented them from abject poverty. The unemployed comprise a heterogeneous group, and the economic resources of different groups vary. The more mature, married or cohabiting individuals have presumably greater economic resources than young job-seekers, those living alone, or single parents (Arosara, 2002; Bolinder, 2000; Nordenmark, 1995).

Although the view that a high level of social security has a negative effect on the feasibility of accepting an offer of employment has been dominant in public debate in recent years, the issue could be viewed from another angle. One could assume that economic resources are a decisive condition for the equal rights of citizens and the welfare of the unemployed. Adequate subsistence is a precondition for rational job-seeking, which often calls for exceptional resources. A high level of social security may have negative incentive effects, but economic resources as a basis for a normal life can also have the opposite effect, enabling active job-seeking, as the results of a Danish study suggest (Andersen 2001). Swedish studies of the employment opportunities of the unemployed have shown that good unemployment security can prolong the period they are prepared to wait for work, thus retarding the transition from joblessness to employment but the reasons for waiting for employment are often quite rational, such as a generally poor employment rate, or the knowledge of potential re-employment by a past employer once the economy improves (Harkman and Johanson, 1995). Bolinder (2000) has observed that the size of unemployment benefits has no bearing on the salary requirements of the unemployed, wherefore the standard of such benefits would not have an effect on the employment of the unemployed. The present paper looks at economic subsistence as one of the basic resources of the unemployed, and the connection between economic resources and orientation to the labour market. Do economic resources have an impact on employment as a goal, on finding employment, on potential mobility in the labour market, or on opting for vocational education and training?

The relationship of unemployment and mental well-being has been extensively studied by psychologists and sociologists. The classic “covert functions” approach has its origins in Jahoda’s (1982) research. Jahoda defined five covert functions: The time frame, social contacts, collective social inclusion, status and identity, and regular activity, which she thought could be fulfilled only through employment. The theory is that in a state of unemployment these functions remain unfulfilled, and the person’s mental well-being is reduced. The covert function approach, however, does not provide sufficiently broad-based justification in modern society, failing, as it does, to take into account the diverse effects of unemployment, or the varying significance of unemployment. This approach treats employment and unemployment as mutually exclusive alternatives, failing to take into account positions between the two extremities, for instance different forms of employment, withdrawal from the labour market, study or training activity. There are a number of alternatives to unemployment, and personal needs can also be satisfied by other means than gainful employment. Instead of unemployment or employment, it seems that the mental well-being of the individual can more likely be explained in terms of the feeling of insecurity associated with unemployment, as well as with employment (Strandh, 2000; Nätti et al., 1995; Kurvinen, 1999). In addition to the insecurity of life, mental well-being has proved to be associated with the predictability and external control of life. According to the “actor-viewpoint”, the individual is active and endeavours to control his life as best he can, and makes an effort to meet the goals he has set for himself. Unemployment is an obstacle for the person wishing to actively control his life, resulting in reduced mental well-being. From this viewpoint, especially economic restrictions and problems proved to be key factors limiting the individual’s opportunities, and rendering his life more insecure (Strandh, 2000). Economic resources and the powers of well-being and coping in life are actually presumed to be linked. In view of these research findings, we may well ask how the unemployed themselves consider their powers of well-being and coping in life affect their chances in the labour market, and their hopes and expectations of finding employment.

Unemployment has been assumed to have an effect on a person’s health, in addition to his mental well-being. Research results suggest that persons with disabilities experience additional difficulties in finding employment. The fact that the proportion of persons with disabilities among the unemployed job-seekers is greater during favourable periods, i.e. in times of high employment, supports this claim (cf. Lind, 1997; Mannila, Tynkkynen and Eronen, 1992). Depending on the data studied, the point in time and the method used, between 8% and 15% of the unemployed suffer from some illness or functional disability. The causal relationship of unemployment and health is not known for certain; we do not know whether unemployment causes illness, or does illness

lead to exclusion from the labour market. We can also presume that various selective or discriminatory mechanisms hinder the employment of persons with health or physical problems. This study endeavours to provide answers to the questions: How are the recognized health resources connected with other resources, including those of economic or mental well-being? Are health-related resources associated with the employment prospects in the experience of the unemployed? Do health resources affect the success of support measures aimed at finding new jobs for the unemployed under the employment project?

Deteriorating vocational competence is considered to be one of the serious consequences of unemployment. There is empirical evidence to suggest that the unemployed themselves are worried about losing their vocational competence as the period of unemployment grows longer (Andersen, 2001). Among vocational resources, vocational and professional training are seen as factors improving employment prospects. Many studies have shown that one's educational level affects the person's employment prospects very significantly. (Kilpeläinen, 2002; Johnson and Myrskylä, 1996; Myrskylä, 1993; Santamäki-Vuori, 1996). For instance, among staff laid off or made redundant, education has been defined as one of the major factors boosting employment prospects (Jolkkonen, 1998). On the basis of past studies, we can assume that the better educated people are more prepared to be mobile in the labour market than the less educated are, because they have the edge in the competition for new vacancies, owing to their formal competence. The more educated job-seekers have also higher qualitative expectations about their future job. In other words, the requirements of the unemployed in the labour market, or their motivation to seek work, depend on their possible geographical mobility in the labour market, and on the kinds of investments made in their own competence (Bolinder, 2000; Jolkkonen and Kilpeläinen, 2002). Hence we can assume that the occupational resources of the unemployed influence their assessment of their chances in the labour market.

Research results suggest that a wide variety of factors affect the employment prospects of the unemployed. In addition to factors such as age, gender and family ties, employment prospects are affected by structural characteristics of the labour market and competition among groups of job-seekers (Koistinen, 2002). For example, when staff is laid off or made redundant, age has proved to be a major criterion for finding new employment. The prospects of job-seekers of various ages in the labour market may differ, and their objective chances of finding work affect the motivation levels and goals of individuals. Labour markets and opportunities in them are different for women and men, as labour markets are stratified according to gender (Jolkkonen, 1998; Kolehmainen-Lindén, 1997). Women and men are also job-seeking in different sections of the labour market (Bolinder, 2000). Staff recruitment practices may also treat women and men, the young and the ageing, or Finns and immigrants unequally.



Age, gender or citizenship can be either individual, social, or structural characteristics, which are largely beyond the control of the unemployed. Employment prospects have also been associated with labour market structures and institutional factors to the extent that motivation and job-seeking behaviour can be explained in terms of the individual's objective chances in the labour market (Bolinder, 2000; O'Connell and Russell, 2001; Kurvinen, 1998). This article includes an analysis of the way social resources, such as age, gender or family status affect the individual's objectives or his experience of his own chances in the labour market. Labour market structures and institutional factors were excluded from this study, although they may considerably influence the way individuals experience their chances and how they behave in the labour market.

## **Data and Designs**

### *Data*

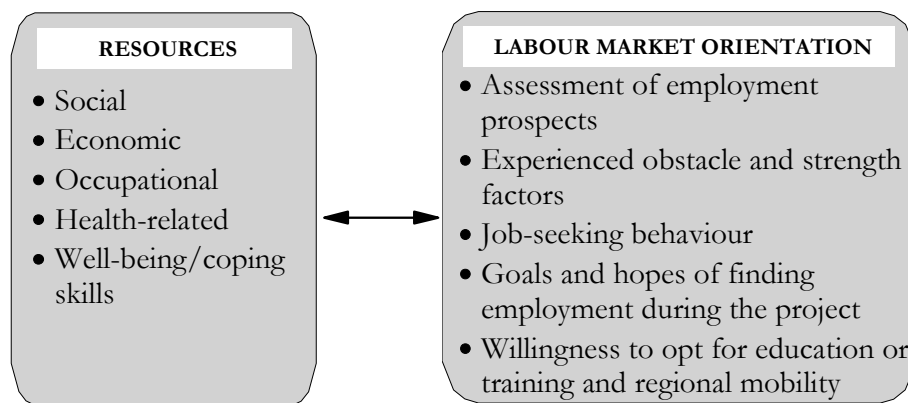
The data has been extracted from surveys of participants in the Labour Pool project implemented in North-Karelia. Subsidised by the ESR, the North Karelian Labour Pool project aims to prepare job-seekers to help themselves to find employment, and it has been going on since 1995 in five North-Karelian towns (Jolkkonen et al., 1999). The project's target group consisted of the long-term unemployed in the 25 plus age group. The project aimed to prepare participants for employment in the open labour market, to refer them to new or further vocational education or training, to support new business ventures, and to activate and empower them. About 140 unemployed job-seekers participated annually in labour pools. The persons admitted to the project drew up individual career plans, and could make use of the employment policy measures available. The project's specific support forms are combined with employment policy measures, including counselling, expert services or educational opportunities. The career plans are based on the personal motivation and interests of the unemployed. The project offers them alternative ways to carry out their plans. Participants join the project as members of a group. They start with a common orientation module focusing on making their career plans, after which the participants follow their plans, proceeding to trainee work, subsidised employment or training. They are also given advice and have access to specialists' services, and, when necessary, examinations related to their working ability.

The first survey of the persons who joined the project in the years 2000 and 2001 was carried out at the beginning of the project term. This first survey covered the participants' circumstances, resources, labour market orientation and goals early in the project. All told, 137 persons agreed to participate in the

survey. The same persons were the participants of a second survey in 2001 at the end of their project term. There were 79 respondents on the latter occasion. The surveys were so designed that the individual responses to the first and second survey could be compared. In the second survey the participants rated their career plans made during the project, the implementation of these plans, their participation in project activities, and their experiences of the effect of the project, the support and guidance they were given, and their placement in the labour market after the project.

### *Research Designs*

The study consisted of two designs. The focus of the first design is on the resources of the unemployed admitted to the employment project, and on the relationship between their resources and labour market orientation (Figure 1). The labour market orientation include the respondent assessment of his employment prospects, experienced obstacle and strength factors, job-seeking behaviour, goals and hopes of finding employment during the project, and his willingness to opt for education or training and regional mobility.

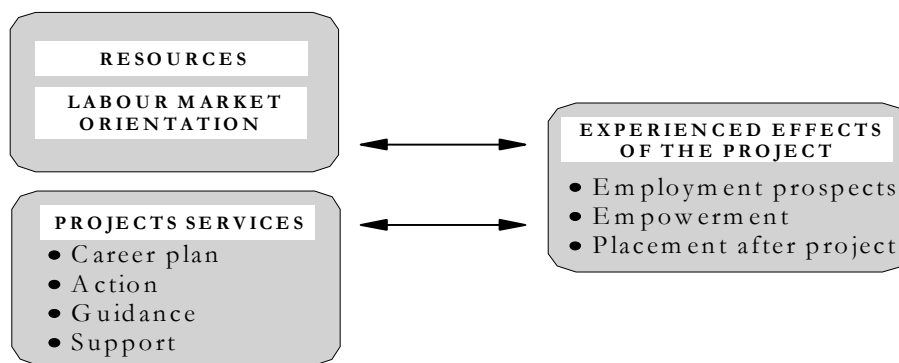


**Figure 1.** The first research design

The resources of the individual include social, economic, vocational and health resources, as well as those of well-being and coping skills. The analysis of all these resources was based on the subjective experiences and assessments as reported by the individuals when responding to the questionnaires. *Social resources* comprised the following variables: gender, age, marital status, employment

status of the spouse, number of children living at home, age of the youngest child, and type of household. *Economic resource variables* included the kind of applicable unemployment benefit, the combined income of the household, and the person's own assessment of the sufficiency of his subsistence. *Vocational resource variables* consisted of the level of education, the nature of the individual's career, and his assessment of his vocational competence. *Health resource variables* included the respondent's illnesses, functional disabilities or limitations, occupational and general functional abilities, and a self-assessment of his state of health. *The well-being or coping skill resources* comprised the following variables: the general degree of satisfaction with life, the problems experienced in life, the feeling of coping, and the level of self-confidence, and any psychosomatic symptoms experienced.

The second design involved an analysis of the respondents' participation in activities during the project, the career plans they prepared, and assessments of how the plans were carried out, the support and guidance the participants received during the project. We investigated if the participants felt their resources had increased, and if their employment prospects had improved. Their experiences of growing resources and improved employment prospects were assessed in relation to the services and guidance they had been given, and to their subjective experiences of resources and labour market orientation, as studied in the first survey. Finally, the factors that explain the participants' consequent placement in the labour market were analysed (Figure 2).



**Figure 2.** The second research design

The first design was used to investigate the internal dependence<sup>1</sup> of various resource dimensions, i.e. the relationships between the variables describing each resource. Then the connections between various resource dimensions were studied. Finally, the labour market orientation of individuals, and the relationship between resources and labour market orientation were analysed. In the second design, participation in the employment project and experienced effects of the project were studied. Changes in employment prospects, empowerment, and the respondents' consequent placement in the labour market were analysed in relation to their resources, and to the services, guidance and support offered by the project.

### **The Resources of the Unemployed and Their Impact on Labour Market Orientation**

#### *The Resources of the Unemployed At Project Start-up*

*Social resources.* More than one half of the respondents to the first survey (63%) were women, the average age of the respondents having been 44 years. The ages of the respondents ranged from 25 to 57 years, but the core group consisted of the project participants aged at least 40 years. The analysis of household type revealed the most common type to be a married or common-law couple with children living at home (34%). The second most common type of household consisted of a married or common-law couple without children living at home (24%), followed by households of a single inhabitant (23%). Single parent households accounted for 14% of the project participants, and 95% of them were women. Of the single inhabitants, 71% were men. Having a family does not necessarily constitute a resource, as unemployment has at times been found to accumulate in the same households. More than one half of the respondents in the married or unmarried couples' category reported the other party to be unemployed as well. Among the social resource factors, gender and family were interdependent variables inasmuch as more women than men lived with their family (they either had a spouse, a spouse and children, or children only). Men, in contrast, were living alone more often than women. Among the social re-

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<sup>1</sup> SAS software was used in analysing the results. In addition to straight distributions, the mutual relationship of variables were analysed through cross-tabulation. The interdependence of variables was measured with the  $\chi^2$  test, the significance level having been set at < 0.05.

source factors, age was related to the type and size of household, and to the age and number of children living in the household.

*Vocational resources.* Fifteen per cent of the project participants lacked vocational training, while the vocational skills of 26 per cent were based on a course, which had not led to any specific vocational qualification. Thirty-eight participants had a secondary level vocational qualification, and 21 per cent had a post-secondary or higher level qualification. On the basis of this, it can be said that 40% of those who had joined the project lacked any kind of vocational qualification, or had undergone only a limited amount of vocational training. Concerning age groups and vocational training, the people in the younger age groups had obtained at least a secondary level vocational qualification more frequently than those in the older age groups had.

About 47% of the participants have had relatively stable working careers. It was typical for this group that after a period of stable work history, their careers had been disrupted in the early 1990s and had then become unstable. One third (33%) of the participants had had very unstable and fragmented work histories, i.e. careers characterised by short spells of employment interspersed by employment measures. Twenty per cent of the respondents had had other kinds of careers. Many members of that group were women, who were returning to working life after having spent some years at home tending minor children. The majority of the respondents (70%) considered their own vocational competence either fairly good or very good, whereas one third of the respondents were unable to assess their vocational competence, or considered it to be poor. Although the majority of the respondents had at some stage in their careers had a relatively long-term job, their careers prior to the project had been fragmented, including fairly long spells of unemployment. Twenty per cent of the respondents reported spells of unemployment lasting at least two years prior to joining the project. The average duration of unemployment before the project was about 17 months. Among vocational resources, basic general education and vocational training were the only significantly interrelated variables. In contrast, the respondents' level of general education did not seem to affect self-assessments of their vocational competence.

*Economic resources.* Prior to joining the project, the majority of the respondents had been receiving earnings-related daily unemployment allowance, while the others were receiving smaller, basic daily allowances or labour market support. The analysis of types of households revealed that single parents and single inhabitants were more often than the others receiving low unemployment benefits. Sixty per cent of the respondents considered their joint household incomes at least satisfactory, while forty per cent regarded their income meagre or very meagre. The variables describing economic resources (form of unem-

ployment benefit, income level, self assessment of subsistence) were interdependent.

*Health resources.* One third of all respondents reported some kind of illness or limitation causing occupational or functional disability. Over 70% of the project participants considered their state of health or occupational and functional ability either very good or good. Interestingly, the survey results suggested that the under-forties experienced more health problems and functional disabilities than members of the fifty plus group did. The younger respondents suffered from allergies and asthma, or mental health problems, whereas the over-fifties suffered typically from musculoskeletal disorders or multiple illnesses. The health resource factors (illness, occupational limitations, vocational functional abilities, and assessments of general state of health) were interrelated variables.

*The resources of well-being or coping skills.* The respondents reported few psychosomatic symptoms of various kinds. Hopelessness, lack of energy, fear, and insecurity were the most frequently reported disorders. The majority of the respondents were fairly happy about their lives. The greatest problems were related to lack of work and subsistence. Project participants felt their own coping skills to be good and their self-confidence to be fairly sound. Among the resource factors of well-being and coping skills, psychosomatic symptoms, general satisfaction with life, the feeling of coping with life, and self-confidence, were interrelated variables.

#### *Relationships Between Resources*

When looking at relationships between various resource dimensions, it seems that health, and well-being/coping skills resources are the most frequently interrelated ones, as could be expected. Vocational functional ability and the person's awareness of his state of health were connected with the high incidence of psychosomatic symptoms, general satisfaction with life, problems in life, self-confidence, and the feeling of coping in life. The poorer the respondents rated their own state of health, or their occupational and functional abilities, the more psychosomatic symptoms they had, the more dissatisfied with their lives they were, and the poorer they rated their coping skills and self-confidence.

The results of earlier studies suggest that economic resource factors are interrelated with those of health and well-being. The present findings suggest that the better the persons' subsistence, the better their mental well-being is, and the less health problems they have. In the present material, subsistence resource factors seem to be connected with health resources to some extent, but only with variables measuring satisfaction with life, and not with those measuring mental well-being or coping skills. There was some degree of interdependence

between the resource factors of health and subsistence. Factors limiting occupational functional ability were correlated with some subsistence resource factors, for example the type of unemployment benefit and a personal assessment of subsistence sufficiency. Furthermore, the illness incidence seemed to be correlated with the personal assessment of subsistence sufficiency in such a way, that the poorer the respondents rated their own economic subsistence, the more health problems they had.

Vocational resources were connected with social resources inasmuch as men had had a stable career more often than women, whereas women had had shorter spells of unemployment prior to joining the project. Age was linked with level of education: the older respondents had lower levels of education and training than the younger ones. In contrast, the older age group had a more stable work career than the younger ones. Vocational resources also appeared to be to some extent connected with the resources of well-being/coping skills or health. A feeling of solid vocational competence signified strong coping skills and self-confidence. A more general education meant greater satisfaction with life and less coping problems.

Social resources seemed to be clearly interrelated with subsistence, inasmuch as the spouse's position in the labour market had a positive effect on subsistence resources. The incomes of single-inhabitant and single-parent households were lower, and they assessed their financial position to be worse than members of the other groups did. Among the social resources, age was related to health, functional ability and well-being. Surprisingly, respondents in the 40 to 49 years' age group felt their state of health and functional ability to be the best of all respondents. Respondents in the under forties' and above fifties' age groups suffered more often of illnesses or psychosomatic symptoms, although the former group generally rated their occupational and functional abilities higher than the latter group (50+). Furthermore, illnesses or symptoms were less of a hindrance for younger respondents, and reduced their occupational and functional abilities less than in the case of the over-fifties group.

#### *The Resources and Labour Market Orientation*

*Estimates of employment prospects.* In the survey, respondents were asked to assess their employment prospects in the labour market. They were also asked to mention their worst obstacles and greatest strengths in finding employment. Structural factors in the labour market, such as the lack of suitable employment, was mentioned as the worst obstacle, followed by age. The other significant obstacles to finding employment were shortcomings in vocational training and competence. Nearly fifty per cent of the respondents mentioned extensive work

experience as their most important strength in finding employment. Other such factors included vocational competence and age. This result suggests that age is a significant factor, both as a strength and as an obstacle.

In their assessment of the, for them, negative factors in the labour market, the respondents referred to all the health resource factors, and among vocational resource factors to education and training and the nature of their careers, and to age among the social resource factor. The respondents, who experienced problems with their state of health, or their occupational and functional ability, felt that they had multiple obstacles to finding employment. In addition to structural factors in the labour market, their obstacles to finding employment were related to health, age, or a combination of several factors. The respondents, whose occupational and functional abilities were good, considered structural factors in the labour market to pose obstacles to finding employment. Generally, the respondents, whose careers had been characterised by subsidised employment, or who had been outside the labour market (at home tending children), saw their obstacles to finding employment to depend on something other than structural factors in the labour market. The higher the respondents' level of education, the more clearly they saw structural factors in the labour market to pose major obstacles to finding employment. An analysis of age groups revealed that the 40 to 49 year-olds experienced a lack of suitable jobs as the worst obstacle to finding employment. In contrast, the under forties mentioned insufficient vocational education and training, or health reasons, in addition to the lack of suitable jobs, as the greatest obstacles. The over fifties, in turn, found age to be a significant obstacle to finding employment.

The respondents' own assessments of their strengths in the labour market were related to their age, vocational competence, and employment prospects. The greatest strength in the labour market was age for the under-forties, whereas extensive work experience and vocational competence were rated highest by the 40 to 49 year-olds. The eldest group of respondents found extensive work experience to be their trump card. The respondents, who rated their vocational competence as poor, considered age and extensive work experience to be their strengths in the competitive labour market. The respondents, who rated their employment prospects as good, mentioned several strength factors. Those, who rated their employment prospects as poor, mentioned extensive work experience as their competitive strength.

The survey respondents had been very pessimistic about their employment prospects early in the project. Finding a permanent job in the open labour market seemed to them unlikely. The respondents' own assessments of their strengths in the labour market were related to health resource factors (how they rated their state of health and their occupational and functional abilities), and their idea of their coping skills. The respondents who had problems with health



resources, or who rated their coping skills as poor, considered their employment prospects also poor. The longer a spell of unemployment the respondent had behind him, the poorer he rated his own employment prospects. It is noteworthy that even education failed to have any significant effect on the self-assessment of employment prospects. The self-assessment of employment prospects was clearly related to the person's motivation level, inasmuch as those who believed in their chances were the most motivated to join the employment project.

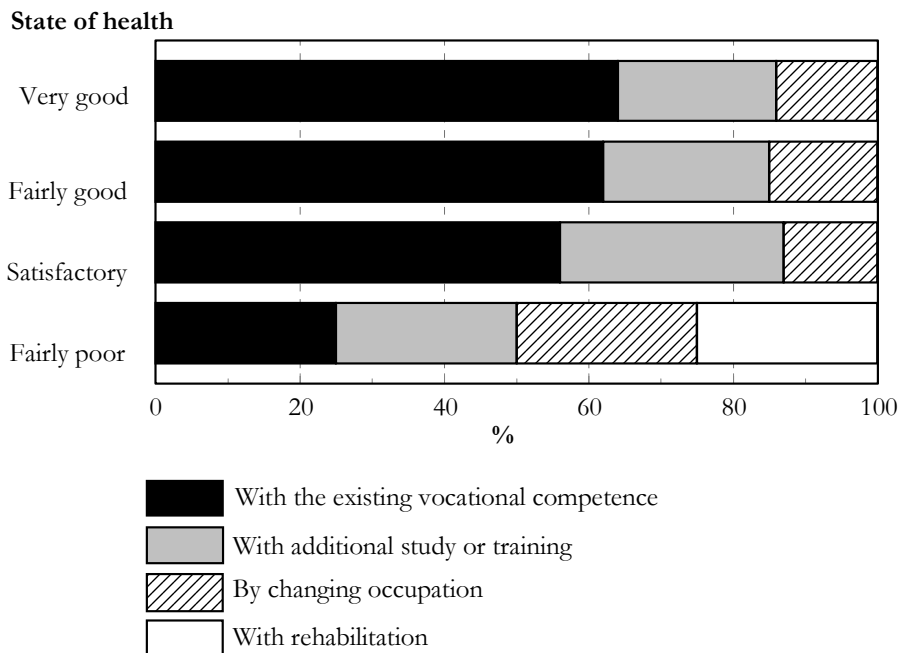
*Job-seeking behaviour.* With reference to labour market orientation, the survey respondents' job-seeking behaviour prior to joining the project was studied. The questionnaire covered both the job-seeking channels used and the intensity of such activity. The most frequently used means of job-seeking was checking advertisements of vacant situations in newspapers, followed by checking for vacancies at the labour offices.

Newspapers were the typical channels for often-repeated job-seeking. The project participants were also asked how many jobs they had applied for during the past six months. Forty per cent of the respondents had not applied for any jobs, while sixty per cent had applied for at least one job during that period.

Job-seeking behaviour appeared to be interrelated with health resource factors (illnesses, limitations, occupational and functional ability), the social resource factor of age, the vocational resource factor of vocational competence, and to the respondents' optimism or pessimism about their employment prospects. Problems experienced with the resource factors of health in particular, and with those of well-being appeared to reduce job-seeking activity. The connection between the individual's experience of unemployment and his job-seeking behaviour can be considered a particularly interesting finding. As an experience, unemployment seemed to have a surprising effect on job-seeking behaviour: the harder that experience had been for the person, the more actively he had tried to find employment. In terms of age groups, the respondents under forty years of age were the most passive job-seekers, whereas those from 40 to 49 years had been the most active job-seekers. Participants, who rated their vocational competence very high, were job-seeking more actively than the others. The higher the respondent rated his own employment prospects, the more actively he had tried to find employment, and the more channels he was making use of in the process. The most active job-seekers among the respondents also used the most channels when job-seeking.

*Targets and expectations of finding employment and of the project period.* The project participants were asked what kind of targets and expectations they had with regard to finding employment and the project period in general, and by what means did they expect to meet their targets. In addition, their willingness and acceptance of vocational and regional mobility in order to find employment was

investigated. It was the project participants' primary wish to find permanent gainful employment in the open labour market on the basis of their existing vocational competence. Going to further training or becoming an entrepreneur had not been the respondents' first preference at the beginning of the project. The harder the respondent had experienced unemployment, the more clearly he set finding permanent employment as his target for the project period. Targets appeared also to be related to health resource factors, to marital status among the social resource factors, to education and training among vocational resource factors, and to the obstacles to employment experienced, beside the resource factors. The respondents, who rated their own occupational and functional abilities very high, wanted more often than the others to find work on the basis of their existing vocational competence. Health problems and problems related to occupational and functional abilities affected the choice of target in that the respondents concerned felt they needed a change of occupation, further training, or rehabilitation more often than the others did, in order to find employment.

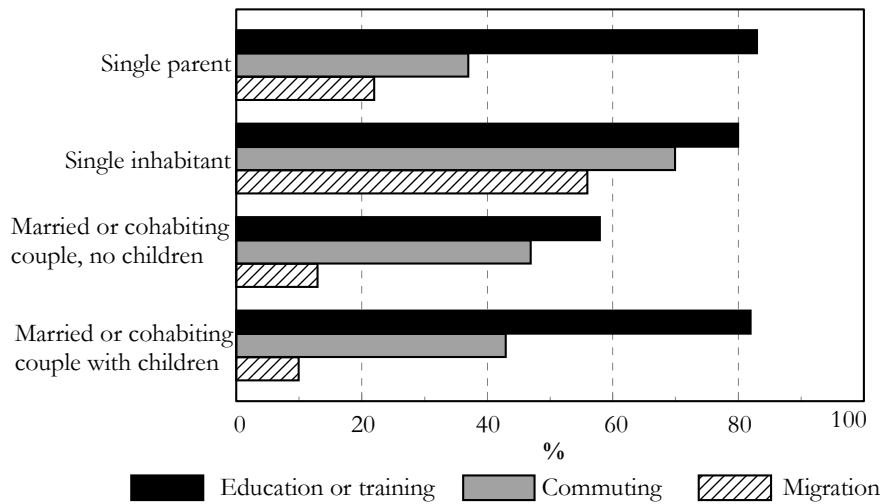


**Figure 3.** Means of finding employment, as considered by respondents, in relation to state of health

The analysis of marital status showed that the married, cohabiting, or divorced respondents, more often than the unmarried respondents, felt the need for further education or training in order to find employment. Respondents with vocational qualifications felt, more often than did the others, that they could find work on the basis of their existing vocational competence. The hope to be employed on the basis of their existing vocational competence was more common among respondents who had mentioned structural factors as their worst obstacles to finding employment.

*Willingness to opt for education, training or regional migration.* Although the survey respondents preferred to find employment in the open labour market, a majority of them (75%) was, at least in principle, prepared to opt for education or training. Generally, the respondents had mentioned age, recent vocational qualification, or several vocational qualifications as grounds against more education or training. Willingness to opt for education or training seemed to be obviously related to social resource factors, including spouse's position in the labour market, number of children, size of family, and type of household. If the spouse was employed in the open labour market, the respondent was more willing to opt for education or training. With reference to type of household, the willingness to opt for education or training was greatest in the households of single parents and families with minor children. The more children in the household, the more willing the respondent was to start studying. Regarding age groups, willingness to opt for study was the greatest among the 40 to 49 year-olds, and the least popular option among the over fifties. Women and men did not differ in terms of willingness to opt for education or training. Willingness to opt for education or training was also related to coping skills, inasmuch as a feeling of not coping well was connected with a weaker interest in education or training.

Half the respondents were prepared to accept employment outside their municipality of residence, and 36% of them were willing to commute daily a distance of 31 to 50 km to a destination. The most important reasons for not commuting long distances included family reasons, child care (mentioned by 42% of the respondents), and problems relating to commuting (no access to a motor vehicle, poor public transport services, or both). Willingness to commute daily was primarily related to social resource factors, such as gender, number of children and size of household. Men and respondents without a family were more willing to commute daily to work. Respondents with a family, and especially women, seemed to have strong ties to the local labour market (Table 1). Willingness to commute was connected with vocational qualifications: in order to find employment, persons with vocational qualifications were keener to commute than those without such qualifications.



**Figure 4.** Willingness to opt for education or training, commuting or migration, in relation to respondents' type of household

A quarter of all respondents were prepared to migrate to another locality for purposes of finding employment. The principal arguments against relocation or migration were associated with the family, children and the spouse's employment. Willingness to opt for migration seemed to be related to education and training among vocational resource factors, the better educated respondents having been more willing to migrate in order to find employment. Willingness to opt for migration was obviously also related to social resources such as gender, type of household, family ties, and the number of children. Men, and the respondents living alone, who had neither spouse nor children, were the most willing to migrate. Women, and persons living with their families, were considerably more tied to their locality than the others were (Figure 4 and Table 1). According to the survey, the unemployed participants in the project were more in favour of occupational than regional mobility.

**Table 1.** Willingness to opt for education, training or regional mobility, in relation to respondents' gender (as percentages)

Gender	Opts for training		Opts for commuting		Opts for migration	
	No	Yes	No	Yes	No	Yes
Women	27	73	59	41	85	15
Men	23	77	35	65	57	43
Sum total	26	74	50	50	75	25

The results suggest that the willingness to opt for education or training, commuting, or migration are not absolutely mutually exclusive alternatives, as those opting for education or training were also willing to commute, and those willing to commute were also prepared to migrate. Seventy per cent of those willing to opt for education or training did not want to migrate to another locality. On those grounds, migration and opting for education or training were possible alternatives.

### Experienced Effects of the Project

#### *Services Provided by the Project and Implementation of Career Plans*

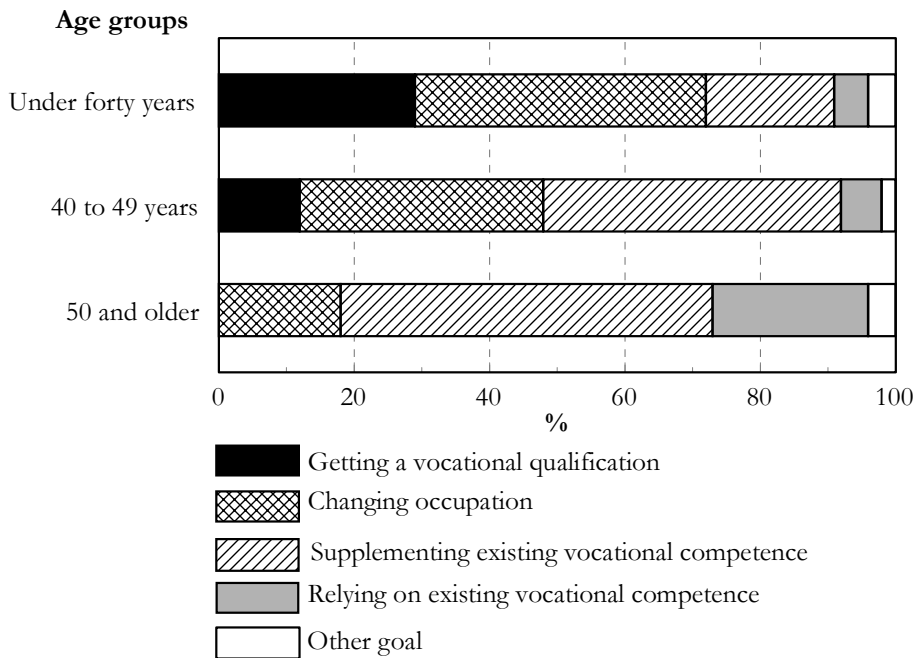
Next, this study will take a look at how the employment project participants arrived at their career plans, their experiences of the project's effects, and the connection between these effects, the services rendered, and the resources. As noted above, the project was based on individual career plans being drawn up and on the availability of support services. Eighty-eight per cent of the participants, who had completed the employment project, felt that they had made a career plan aimed at finding employment during the project. The respondents, who had failed to make their career plans, had participated only in the common orientation module at the beginning of the project. The more definite the expectations of finding employment had been among the unemployed participants initially, the more likely they were to work out a career plan in the course of the project. Sixty per cent of the respondents had experienced at least some difficulties associated either with choosing or changing careers, or setting targets and making decisions, when drawing up their career plans. The greatest problems were, not unexpectedly, related to implementing the career plan. Age, the lack of suitable employment, having secured a place on course of study or training, economic problems (preventing enrolment on a course of study or training) and

factors associated with health or other personal matters, were mentioned as reasons for having failed to carry out the career plan. Despite problems, 84% of the respondents felt that they had received enough support and guidance in following their career plans.

The second survey of employment project participants showed that they did change occupation, or take up vocational education or training considerably more often than could be expected on the basis of the initial survey. When joining the project, many participants had hoped to find work on the basis of their existing occupation and vocational competence, but in the course of the project they decided to acquire a (new) occupation or further vocational competence through education or training. In the course of the project, 37% of the respondents gradually adopted as the aim of their career plans to supplement their existing vocational competence, while 34% of them chose to change occupations, 13% chose to obtain an occupation (they lacked previous vocational qualification or competence), and only 12% of the respondents believed they could find employment on the basis of their existing vocational competence alone. Opting for further education or training had not been mentioned by respondents as their primary aim in the initial survey, but in the course of the project some kind of education or training was included in the career plans of 80% of the respondents.

The gradual development of the career plan targets was related to age among the social resource factors, the under-forties opting mainly for acquiring a vocational qualification or changing occupation, the 40 to 49 year age group deciding to supplement their existing vocational competence or to change occupations, while the over-fifties either chose to supplement their existing vocational competence, or to find employment solely on the basis of their existing vocational competence (Figure 5). Setting targets for the individual career plans was connected with vocational resource factors, such as the nature of the respondents' careers, subject to the background influence of differences between age groups, and personal assessments of vocational competence. The respondents, who thought very highly of their vocational competence, often ultimately opted for supplementing their existing vocational competence. The respondents, who rated their vocational competence as fairly good, chose supplementing their existing vocational competence, or changing occupations as targets in their career plans. The respondents, who thought they lacked vocational competence, chose to acquire new vocational competence, or to find employment on the basis of their existing vocational competence. Setting targets for the individual career plans appears also to be connected among economic resources to the type of unemployment benefit payable to the respondent, inasmuch as recipients of lesser allowances tended to opt relatively more frequently for changing occupations, while those eligible for the higher, earnings-

related unemployment allowances tended to choose further vocational training. Furthermore, the respondents who had stated their interest in education or training when joining the project did consequently choose more often to acquire a vocational qualification, or to change occupation. Setting goals for the individual career plans appeared also to be connected with coping skills, as those who thought they could influence their employment prospects chose relatively more often training leading to a vocational qualification (getting a vocational qualification and changing occupation).



**Figure 5.** Goals in the career plans made during the project in relation to age group

Forty per cent of the respondents in the survey thought that their career plans were working out well, and equally many reported that the plan had already materialised to some extent. Only 20% of the respondents thought that their career plans had not materialised at all. The relatively short duration of the project allowed only fairly short-term assessments of how the career plans had materialised, as many respondent were only beginning to implement their career plans at the time of the second survey.

In addition to being associated with certain resource factors, the implementation of career plans seems to be connected with the guidance available during the project. First and foremost, vocational education or training seemed connected with the implementation of career plans, as the relatively largest proportion of the respondents who had lacked vocational qualifications failed to implement their career plans. Secondly, the implementation of career plans was connected with coping skills, as the more satisfied the respondents were with their lives at beginning of the project, or the less problems due to unemployment they had experienced, the more likely their career plans were to materialise as planned. It also appears that the respondents, who had a clear target of finding employment at the beginning of the project, were more pleased with how their career plans had materialised than those, who could not set a definite target for the duration of the project.

All the respondents had participated in the orientation module at the beginning of the project. Of them, 53% reported having been in work practice in the private sector, while 31% of the respondents had been in work practice in the public sector. Participation in work practice was far more common than being in subsidised employment, as only 11% of the respondents had engaged in the latter activity during the project. Thirty per cent of the respondents had been in training or attended a course during the project, and 36% of them reported having consulted various specialists or made use of advisory services. The respondents were fairly pleased with the opportunities available in the project, the trainee work, or employment and training places having corresponded with the participants' career plans well.

#### *Changes in Employment Prospects and Empowerment*

In the survey conducted at the end of the project term, participants were asked to evaluate the whole project.<sup>1</sup> With regard to finding employment, the respondents considered the project to have been most useful in promoting job-seeking skills and education or training opportunities. The majority of the respondents

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<sup>1</sup> The respondents had been given specific criteria for assessing their employment prospects (finding employment, coaching in job-seeking skills, vocational competence, career guidance, creating networks to working life, choosing further study or training, starting a business or joining a co-operative) and the other possible effects of the project (including the acquisition of new knowledge, increased activity, self-confidence, being more sociable. The respondents assessed the effects of the project at a personal level on a scale from 1 (= meager) to 5 (= excellent).



found that the project in general had improved their employment prospects considerably. Only 11% of the respondents felt that their employment prospects had not improved at all (Table 2). According to the respondents, the project improved employment prospects – at least indirectly – in many ways, for instance by encouraging further training, coaching job-seeking skills, or creating networks promoting employment.

**Table 2.** The experienced effects of the project and the support received during it (as percentages)

Support given during project	Improved employment prospects				Increase of other resources			
	Not at all	Slightly	To some extent	Very much	Not at all	Slightly	To some extent	Very much
By assisting professionals	0	0	20	80	0	0	20	80
By others <sup>1</sup>	30	30	30	10	20	20	40	20
By assisting professionals and others	5	14	24	57	9	7	10	74
No support	50	17	0	33	50	0	17	33
Sum total	11	15	23	51	13	8	16	65

Improvements in employment prospects were clearly related to the services, support, advice and guidance rendered during the project. The respondents, who experienced their employment prospects as having improved most during the project, also felt that they had received much guidance and support (Table 2). Those who felt that they had received guidance from both project leaders and other participants, were the most satisfied. Subsidised employment and trainee work were found to boost employment prospects the most, although combining work with training or with the services rendered by specialists, or with both, were also considered to improve employment prospects. Participation in as many support measures as possible boosted the chances of finding employment further. The employment prospects of respondents, who opted out of the project after the orientation module, did not improve. Improvements in

<sup>1</sup> The term “other supporters” refers to other participants in the project, personnel at palaces offering job or trainee work, family members and friends.

employment prospects did not seem to be related to the respondents' resource factors. Therefore it can be claimed that the project could improve employment prospects as experienced by the participants, regardless of the respondent's initial resource status.

The respondents rated courage, increased self-respect and activity levels as the most important ones among the additional effects of the project. It was also felt that above all, the project increased social relations and provided information on opportunities for education, training, and employment. Sixty-five per cent of the respondents found that the employment project had a great many other effects. Only 13% of them were of the opinion that the project had no additional effects for them whatsoever (Table 2). In the participants' own assessment and experience, participation in the employment project affected their self-confidence, activity level, and social relations the most, and only then came the matters that had a more direct effect on employment prospects. This result may depend partly on the fact that it was too difficult or early to assess what effects the project had on employment prospects if employment had not immediately followed or been offered. In contrast, the direct and indirect effects of the project were experienced in the sphere of self-confidence, the activity level, and social relations, and the project's effect on these areas are also easier to assess immediately after the project.

The respondents, who felt that they had received much guidance and support, and in particular those who had attended education, training and employment-promoting activities, were most satisfied with the additional effects of the project. With reference to guidance and support, the guidance given by the project personnel and the psychological support given by the so-called assisting professional helpers or counsellors (project personnel, labour officer, instructor of the orientation module) was rated important. The respondents who felt deprived of this support also felt that the project had had very few other effects (Table 2). The other effects of the project appear to be related to the respondents' personal resources to some extent: Primarily to health resources, as the respondents who had assessed their occupational functional abilities as only satisfactory found the project to have had mainly additional effects. Secondly, the other effects of the project were related to subsistence, as those who had rated their subsistence as meagre found the project to have had mainly additional effects. Thirdly, the other effects of the project were related to respondents' labour market orientation, as the respondents willing to opt for education or training had gained more from the project. Furthermore, the respondents who had considered their employment prospects as poor or fair at beginning of the project felt that they had gained most from the project in terms of increasing personal resources.

In the survey questionnaire conducted at the end of the project term, participants were asked about their position in the labour market and plans for the future. After the project, twenty-seven per cent of the respondents had found a job, 8% of them were employed until further notice, and 19% for a fixed term. Twenty per cent of the respondents reported that they were in training, or were due to start studying in the near future, and five per cent stated as their target to become entrepreneurs, either on their own, or as a partner of a co-operative venture. Fifteen per cent of the respondents who had completed the project were in some other kind of situation, i.e. attending evening classes or on a course of multiple study modes, or on sick leave at the time of the survey. Thirty per cent reported that unemployment was pending after the project, but they expected to find a job or to enrol on a course of study in the near future. Only three per cent reported that unemployment was pending, and they did not have any expectations or plans for employment or study. The recruitment channel of those who found work was often (42% of the employed) a job or trainee's position during the project. The respondents, who opted for study or training after the project, envisaged their employment prospects as having improved even more than did those who had subsequently found employment. This result is understandable in view of the fact that most of the jobs found following the project were temporary in nature. As a job does not necessarily increase the feeling of continuity or security, for example education and training can appear to boost employment prospects more significantly than a job.

The majority of respondents who opted for study (87%) thought that their employment prospects had been boosted considerably. Fifty-three per cent of the respondents who found employment thought that their employment prospects had improved considerably, and 36% of the respondents, who were unemployed immediately after the project, felt that their employment prospects had improved significantly. The respondents, who had neither found employment, nor been admitted to a course of study, were fairly pessimistic about their chances of finding employment within six months. The respondents who had made career plans during the project, or whose aim was to change occupation or to get further vocational training, were most optimistic about finding employment. About half the respondents who had rated their employment prospects poor in the first survey, estimated that they would find employment during the first six months after the project.

The participants' subsequent placement in the labour market was related to health resource factors. Thirty per cent of the respondents, who did not have any functional disabilities or limitations, found employment, while nineteen per cent enrolled on a course of study. Nineteen per cent of the respondents, who had some functional disabilities or limitations, enrolled on a course of study. A further nineteen per cent found employment, while 38% were in some other

kind of situation (sick leave, retirement, studying while unemployed). The problems experienced during unemployment were related to placement after the project, inasmuch as those who thought that unemployment gave rise to many problems, ended up working or studying more often than did the others. The respondents' placement after the project and their labour market orientation early in the project were related: 70% of the respondents, who expected to find work during the project, were employed after the project. About half the respondents, who thought their employment prospects good at project start-up, found work after the project. Of the respondents who had rated their employment prospects poor in the first survey, 24% enrolled on a course of study, 24% were in some other kind of situation, and 33% were unemployed, but did plan to find work or opt for a course of study after the project. Subsidised employment or work practice, combined with study or the services rendered by specialists, were the actions taken during the project that had the greatest effect on finding employment. There was no statistically significant difference between the kinds of action taken and placement after the project.

## Conclusions

One of the aims of this research was to study the resources of the unemployed, whether individual, structural or culturally determined. The purpose was to focus on the resources experienced by individuals, and the importance of resources for initiating action. The basic assumption was that resources have an effect on the labour market behaviour and orientation of the individual. A further assumption was that resources could also have an effect on what the advantages of the project were for the participant, and how they will fare in the labour market afterwards. The results show that the behaviour of the individual is rational in relation to the resources they have at their disposal. The results show further that a subjective perception of the person's own resources is not constant, it can be reinforced and supported through project activity. In this regard, the services, support, guidance and opportunities offered justify the existence of the employment project.

The research results suggest that job-seeking behaviour is influenced by the social resource factor of age, all health resource factors, and the vocational resource factor of vocational competence. Job-seeking behaviour was also influenced by the unemployed person's assessment of his employment prospects and experiences of unemployment. Thus it seems that subsistence, for example, does not influence job-seeking behaviour, a finding that agrees with Swedish (Bolinder, 2000) and Danish (Andersen, 2001) research results. Actual employment prospects, as experienced by the individual, seem to be very good

predictors of the job-seeking behaviour of the unemployed. The employment prospects experienced by the individual depend on various factors, such as age, state of health, vocational competence, and duration of unemployment. The employment prospects of the unemployed were also determined by structural factors cited by the respondents when specifying their obstacles to finding employment. The characteristics of the labour market were not analysed in this study, but the estimates of the obstacles to employment by the jobless are signs of a low demand for labour in the area, and of a high rate of unemployment, which pose objective limits on finding employment.

The hopes of the unemployed, and the targets they set for themselves, can be explained in terms of factors such as family ties, health, education, how they experience unemployment and the obstacles to finding employment. Willingness to opt for education or training was related to social factors, including family ties, the spouse's position in the labour market, and age. Willingness to opt for regional migration was clearly related to the social resources of gender, family ties, to the number of children, and to the vocational resource of education and training. Women had clearly much stronger links to their place of domicile and to the local labour market than men had. Due to their local ties, women were more likely to accept temporary, fixed-term employment with low wages or atypical conditions, or opt for education or training, than men were. Willingness to migrate appears to be greater the more the person has invested in acquiring new knowledge and skills. Persons with higher education levels have a competitive edge over others in the job market, and they have, therefore, a better chance of finding employment (cf. Bolinder, 2000).

The results suggest that joining the employment project had, according to the participants, considerable employment-promoting effects and a tendency to increase individual resources. Improvements in employment prospects or increasing personal resources, as experienced by individuals, are attributable to the services, support and guidance received during the project. Participation during the project in employment-promoting activities (work practice, subsidised employment) alone, or in connection with education or training, improved employment prospects the most as experienced by the participants. The more guidance and support the respondents felt they had received during the project, the more they thought their employment prospects had improved and their resources increased. It was interesting to note that the respondents, who had assessed either their occupational and functional abilities or subsistence as very poor, felt their resources to have increased the most.

Furthermore, the study showed that the implementation of career plans by the participants in the employment project, and their subsequent placement, was connected with the target set at the project start-up, the respondent's personal experience of employment prospects, and to past experiences of unemployment.

An interesting aspect of the result was that a clear target of finding employment, set early in the project, and a belief in one's own employment prospects, and having found unemployment a hard experience, foretold that the respondent's career plan was materialising, and that he would find employment by the end of the project. Placement in the labour market after the project was also affected by any illness or limitation of occupational or functional ability reported by the respondent.

Swedish research results (Bolinder, 2000) suggest that the unemployed person's chances of finding preferred employment are affected by many structural factors in the labour market (the employment rate, job vacancies, employers' staff recruitment practices) or social factors, which the job-seeker can do little about (age, gender, citizenship, family ties, health). The job-seeking behaviour of the unemployed can therefore be considered rational in this regard. According to this study, especially the health, social, and vocational resources have an effect on how the unemployed experience their opportunities and set their labour market goals. In contrast, the actual chances of finding employment, as experienced by the unemployed, affected their labour market behaviour. Participation in the employment project, and the services, support and guidance available to participants, improved the employment opportunities experienced by the unemployed and increased their resources. Based on the above, it can be concluded that the important function of the employment project is to empower participants and reinforce their confidence in their employment prospects, thereby influencing their behaviour and orientation in the labour market.

## 12 Conclusions

*Pertti Koistinen and Werner Sengenberger*

This book provides a diagnosis, an assessment, of the social and economic development in Finland during the 1990s. This is a demanding task since this decade covers the years of recession (1990–92), the post-recession stage of recovery (1993–95), and the years of established growth (1996–2000). These cyclical fluctuations spilled over to areas of the social life. There has been a strong interplay between the economic and social spheres and an interaction between various organisational structures of society providing economic growth, loyalty, commitments, legitimacy and social order. To adequately capture these important linkages, a suitable conceptual framework is required.

*The Conceptual Frame of our Analysis*

When Maurice, Sellier and Silvestre (1986) developed the concept of “societal choice”, they argued that an analysis of societal institutions, such as education and training systems, labour markets, manufacturing organisations, occupations, and of their inter-relationship, needs to be based on a study of the structures and actions specific to that society, i.e. the societal approach. The focus had to be on institutions and actions which construct the institutional settings”.

The concept of “societal choice” applies also to the welfare state, gender relations and industrial relations. “Welfare regimes”, a notion developed by Esping-Andersen (1990; 1999), is perhaps the best known concept used in analysing the welfare state. Esping-Andersen refers to those institutional arrangements which govern the interaction between the markets, the state and the family, and which are aimed at preventing and levelling out social risks. “At the core of the welfare regime study lurks the presupposition that the institutional configuration matters for how risks are absorbed and distributed, for social stratification and solidarities, and also for the operation of labour markets. Hence, regimes should display some degree of congruence and commonality in how they adapt to massive social and economic change” (Esping-Andersen, 1999, 86). Thus, society is seen strongly from the perspective of institutions, their established lines of action, and their ability to act.

The concepts of societal choice, social institutions, welfare regimes and social change have guided the analysis of Finland undertaken in this book. The key focus has been on finding out how they have affected regional development and the functioning of the labour markets. The analysis of urban regions, their change, and thus the concepts of the governance of regional development have been central in the description of regional change. Furthermore, the structure and functioning of labour markets are analysed by using the concept of the employment system describing the relations between the labour markets and other social institutions. The empirical analysis focuses on the issues of employment, participation in the labour markets and functioning of labour markets, but it does, in principle, contain a broader view of the social factors affecting employment and the functioning of labour markets. In this way it permits us to see the whole of the factors that govern national choices.

National choice can be understood as conscious political acts shaped by the operation of institutions, social practices, and the behaviour of individuals. Such choices take place, for instance, in the realm of macroeconomic policy concerning economic stability, the exchange value of money, the terms of trade, and other measures in support of growth and promotion of employment. In addition, educational and social welfare systems, regulation of industrial relations, support systems of labour policy and the housing market as well as the gender relations determining the division of work between men and women, are institutional structures of central importance to employment and to the functioning of labour markets. But national strategic choices are also reflected in the choices of individuals, because each individual decides on his/her participation in the labour market and on his/her means of succeeding there according to his/her own situation and values, yet still within the framework determined by social institutions.

#### *Basic Dimensions of Change in the 1990s*

For Finland, the 1990s were a decade of dramatic change of the economy and politics. It challenged political decision-makers, institutions and individuals to adapt. The changes that occurred may be characterised as far reaching and rapid, casting doubt on the conventional view that social change relating to the population, labour structures and institutions tend to be slow. Regional differentiation and the more prominent role of urban regions as motors of the economic growth, structural change and welfare development can be regarded as examples of this. We have witnessed a gulf between growing and stagnating regions as well as those entering into a vicious circle of decline. This book also documents individual behavioural change in the labour market during the 1990s. It is indi-



cated in the increasing flexibility of working-hours, employment contracts, occupational and regional mobility and, above all, in the fact that now these forms of flexibility interact and vary across groups of the labour force.

Various contributions in this book show that mobility rates of the labour force by region, occupation and economic sector have increased, that the number of short-term employment relationships has risen and that contractual flexibility in industrial relations has increased especially in the post-recession years. Especially striking is the finding that the combination of migration and occupational change is typical for young persons, whereas the simultaneous change of the occupation and field of economic activity is prominent among people with business education. It is significantly less frequent in public health service and teaching occupations where the so-called professional requirements are defined by law. For this reason, free regional movement and change of employer while staying in the former field of business are usual among occupations in the public health service. The studies in this volume point not only to higher levels in each of these forms of movement of labour in the 1990s, but in addition to a greater cumulation of movements resulting from individual search for a new place in the labour market (Jolkkonen and Kilpeläinen, *in this Vol.*)

Increased labour force movement has fuelled the flexibility of the labour markets and promoted structural change in the economy. Furthermore, the research presented in this volume reveals that it has also contributed to raising the level of labour force participation and employment. With increasing demand for labour, the unemployed could be integrated into the labour market. This, however, proved to be easier for those who earlier on had spells of short-term employment, than for those without such employment experience. People, who changed occupations and fields of business have, for their part, increased the number of work months more than those without such a change (Jolkkonen and Koistinen, *in this Vol.*) However, while from the vantage point of the labour market functioning all this may be seen in a positive light, it cannot be excluded that the new and heightened labour mobility of the 1990s entailed new kinds of insecurity and social divisions, and triggered instability in industrial relations. It is too early to pass judgement on these effects.

#### *Public Policy Reform*

The increase in the multiple forms of labour mobility and the increased rates of labour force participation and employment in Finland in the course of the 1990s must be seen against the backdrop of economic and labour market reforms. Finland shared this experience with other countries. Julkunen and Nätti (*in this Vol.*) underline that beginning in the 1980s, all market economy countries faced

pressures to make production and the use of labour more flexible. However, the concrete choices available to each country, business enterprise and labour market organisation and the social context of such choices depended on the capacity and will of each society to respond to the pressures and to implement the change deemed necessary.

According to Julkunen and Nätti all industrial nations since the eighties have lived through four partly successive, partly intertwining reforms of economic and social institutions. The deregulation of financial market institutions in the early and middle 1980s kicked off the process. It was followed by public sector and labour market reforms, as well as welfare state retrenchment and restructuring. The transformation was deepest, most coherent and consequential in New Zealand, which “in less than a decade changed from a bastion of welfare interventionism to a liberal reformer’s paradise” (Larner, 1996, 33). These new policies do presuppose new mental models, new ways of thinking, at least by the economic and political elite. The role of the neo-liberal community was decisive in gaining legitimacy for new thoughts about deregulation, privatisation, flexibilisation and individualisation. (*op. cit.*)

Compared to New Zealand, the measures of reform according to the neo-liberal agenda in Finland has been modest, more modest than the business elites had strived for. Also, they were presented primarily in pragmatic, not in ideological tones. This “modesty” reflects the continuities of the welfare and labour market regimes established during the sixties, and path-dependency, as Esping-Andersen (1999) and other neo-institutionalists (Kitschelt et al., 1999) call the resilience embedded in the institutions themselves. Today, we know that the far-reaching neo-liberal reforms undertaken in New Zealand, notably the deregulation of the labour market and the dismantling of welfare arrangements, caused only a strawfire and soon elapsed into a loss of mass real income and other declines of labour standards. So, as concluded in the article by Sengenberger in this volume, Finland may have been wise to engage cautiously in the reform project without basically rolling back its institutions of social protection, arriving at a greater balance in the needs for flexibility and social security. Thus, compared to New Zealand at least, we may characterise the public policy reform in Finland as one combining change and continuity.

The deep recession in the early 1990s, the resulting employment problems, financing problems in the public economy, and accumulating social problems had a definitive effect on the choices of political decision-makers, on the functioning of social institutions, and on the preferences of individuals. Consequently, many reform items, which had in fact been stuff of daydreams earlier, were carried out in a very short time also in other areas of social life, but could not be implemented earlier due to a lack of sufficient will and commitment. Examples are the shift of focus in industrial policy from the traditional policy of

subsidisation to efforts to ensure operational support for the information society through cluster policy, rationalisations of the public sector economy, reforms in the regional policy, reforms in labour and social welfare legislation, programmes for activating the labour market policy, the national ageing programme, as well as the increasingly significant implementation of the labour policy on a basis of partnership between local initiatives and stakeholders. (Jääskeläinen, 2000; Saari, 2001; Työsopimuslakikomitean mietintö, 2001; Koistinen, 1999.)

#### *Redressing New Regional and Local Inequalities*

Economic and social equality across regions and local areas has been a national policy goal in Finland for quite some time. In fact, by international comparison, the country has been fairly successful in accomplishing approximately equal opportunities for its citizens in all parts of the country. Spatial differences of disposable income could be kept fairly small. Through national regional policies, supplemented later on by assistance from the European structural and regional funds, Finland managed to counter-act tendencies for regional disparities. Major instruments of such policies have been subsidies, income transfers and the provision of universal public education, health and social welfare services which grew particularly during the 1970s and 1980s. They resulted in a regionally fairly balanced human resource base of well educated, vocationally trained and healthy workers who helped to rapidly propel Finland to one of the prosperous countries in Europe. In addition, these policies were instrumental in stabilising income levels and consumption power over the business cycle and also across regions, thus making the country more resilient to economic fluctuations and evening out regional imbalances in living standards. They have prevented large-scale poverty and destitution.

Yet, regional policy remains an unfinished business, in Finland and elsewhere. In the course of the 1990s, new regional inequalities of economic growth and living standards emerged. As described in Antikainen and Vartiainen (*in this Vol.*), these new disparities are manifested in the advancing urbanisation within regions, migration streams notably of young people and jobless workers to the growth centres of the big cities in the South and Southern central region, engendering a larger North-South divide, and an increasing polarisation of richer and poorer population segments within the cities. Therefore, whilst Finland still belongs to the countries with low absolute and relative poverty levels, it seems clear that these trends generated greater regional income differentiation in Finland, and greater disparities in terms of where the younger and the older population lives.

The new spatial inequalities pose challenges not only to egalitarian national public policy goals, they also create inherent dangers of exacerbation and political destabilisation. There is clear risk that the emerging regional and local disparities will reinforce themselves insofar as the declining areas may fall below the threshold of a critical mass in the volume and quality of economic and social resources needed for their self-revitalisation. The psycho-social problems caused by unemployment, under-employment, out-migration and ageing in these areas may multiply or worsen, thus accelerating the process of atrophy. Almost any regional decline is accompanied by cultural impoverishment. Even worse, if the losing regions and areas see an exodus of people with key competences, especially entrepreneurs and skilled workers, the chances for stemming the tide may quickly shrink. Loss of political vitality and political participation of the citizenry may follow, weakening the foundations for political consensus and social cohesion.

Economic and social risks can also emanate from the winner regions. Although even in the areas of the fastest growth in Finland the aggregate unemployment rate is still fairly high (partly because of the influx of jobless workers from other areas), there are signs of labour shortages in the dynamic economic sectors, especially in the high tech occupations. Along with them may come “over-employment” and inflationary pressures. Being one of the most advanced ICT economies in the world, Finland – together with the other Nordic countries and the United States – has experienced comparatively high rates of stress and mental disorders that is endemic to work in the ICT field (see the ILO study on stress in Finland). Thus, the so-called winner areas of the migration streams are not in every respect in a favourable situation either.

Another challenge for the growth centres in Southern Finland has been the need to build linkages to international chains of production and services. In fact, this applies first and foremost to the Helsinki region. It is called to operate simultaneously and competitively in global, European, national and local networks. At the same time, in the wake of economic globalisation and political power being conferred to supra-national (European) authorities, the capital region may face retrenchments stemming from rationalisation of the national government and public administration and the locational decisions of large corporations.

What are the political options for redressing the emergent regional and local imbalances? First, a self-correction of the disparities through market forces should not be relied on. It is very unlikely that a relative fall of prices, as for example for housing and other goods in the low growth regions, will trigger a reversal of labour migration or demographic recovery. Usually, migration streams are governed more by opportunities than by prices. Moreover, as indicated by various contributions in this volume, the regional-local differentiation

of the 1990s has engendered gaps in the quality of jobs, career opportunities, and social services. For example, the erosion of the principle of universal services shows up in the field of postal services as well as social services provided by the municipalities (see Central Federation of Social and Health Security, 2000). In some areas, the quality of living may suffer to such an extent that new attractiveness cannot be created without affirmative action. Paradoxically, all this occurs at a time when Finland is considered a laboratory for an egalitarian, locally based information society (Himanen and Castells, 2001).

Traditional regional policy based on targeted subsidies and social transfers may no longer suffice to reverse the growing disparities. They find their limits where such assistance will not enable people to make the necessary investments and innovations. In fact, looking at European experience with financial transfer policies during the last two decades, we see at best a mixed story. Some successes, e.g. in Ireland and Portugal, can be witnessed next to the failure to significantly reduce the large sub-national regional disparities in the EU with the structural and regional funds. Moreover, the experience with such measures in Germany is not particularly encouraging. Huge financial resource transfers (of an average annual rate of 80 billion euros) to the New Länder in East Germany over a period of more than one decade has not achieved the expected economic and social convergence with the Western part of the country.

A new impetus to regional policy will be required to cope with the regional disparities. As stated by Antikainen and Vartiainen, “the basis for local industrial and employment policies should be the identification and improvement of the natural strengths and opportunities of each locality and region” (*op.cit.*). While financial transfers between regions, and especially between the national government and the municipalities remain essential to assure compensatory financing of the infrastructure of the disadvantaged regions, the added dimension of regional policy may be focussed on reinforcing the regional and local capacity for self-reliant and self-responsible action leading to more endogenous development. This would mean that decision-making power for regional and local development is further devolved (implying a “regionalisation of regional development”), and is put in the hands of local public and private actors (including the government and parastatal institutions, employers’ organisations, trade unions, universities, NGOs, and other organisations of civil society). Through dialogue and public-private partnership, they would strive to find a consensus on the basic goals and principal directions of regional and local development. They could jointly engage in a review of the local strengths and weaknesses, as well as the local potentials, to advise on future opportunities for growth and investment. This may then serve as the consensual base for a medium-term development agenda. As we have learned from areas where this activation approach has been practised, the involvement of these actors in planning the future destiny

of the region or locality usually entails a strong commitment on their part to help implement the development schemes.

The policy ingredients to such a local development approach might include the following:

- improving the local innovative potential by promoting competent entrepreneurship and a proper mix of generally accessible production and commercial services;
- strengthening the local human resource base by broadening or improving the education and training of the local labour force and securing adequate public and private employment services;
- providing health and social services to ensure adequate care for children, the elderly, the disabled, people with mental disturbances, etc. This may be instrumental for raising further the aggregate employment rate and to make further progress towards gender equality in the labour market;
- widening and strengthening the cultural facilities in the area to improve the quality of life and to retain, attract young people.

In essence, this approach would not be totally novel to Finland. It would be an extension of the policies for social inclusion and balanced development which the country has pursued for some decades. However, it would mean to go further towards mobilising and activating the local population to take part in the development process, and it would seek to raise awareness, skills and competence of the local actors towards local development goals. In particular, it would activate civil society to take responsibility for the locality's future. By involving more people in this process, it would also vitalise local political participation and stabilise democracy.

#### *Changes and Continuities in Employment*

If we take all these reforms seriously, which have been carried out in, for example, labour and social security legislation and the operations of social institutions producing labour, social and welfare services, it can be assumed that the reforms implemented in the 1990s have brought about essential change in the rights and obligations of society and the individual. In international comparison (Heikkilä and Keskitalo, 2001; Kautto, Frizell, Hvinden, Kvist and Uusitalo 2001; Skog and Räisänen, 1997), the programmes for activating the labour and social security policy have been on such a large scale in Finland that one may conclude that the 1990s were also a time of reforms in the institutions. Examples of these reforms affecting the rights of individuals and the operations of institutions

include the more than one hundred changes that were made in the social welfare legislation, and the re-dimensioning of public health and welfare services (Simpura et al., 2001), the coming into force of a new Contracts of Employment Act in September 2001, the integration of the functions of the employment and social security policy and the reform concerning the required lowest-priority social security as regards the long-term unemployed (Act on Rehabilitating Work). Together, these changes have surely forced individuals to reconsider their own resources and possibilities, for example, concerning participation in the labour markets or withdrawal from the labour market. Although it has been the welfare state's duty to encourage the population of working age to participate as largely as possible in the labour markets, the encouragement of employment and social security systems varies according to the household's size, private wealth and position on the labour market (Arosara, 2001).

The 1990s also brought new features to the labour market position and behaviour of individuals. Examples include the diversification of the integration of the newly graduated into the working life and the prolongation of the time needed for post-graduate integration into the labour markets (Kilpeläinen, 2002). The number of short-term employment relationships has increased. The use of short-term employment has become a significant strategy in the public sector. Increasingly more students work while studying, especially in a period of general boom and in certain sectoral activities, such as information technology and private services. This trend has increased to such a degree that one can surmise that working while studying has become a specific mode of working. As Koistinen points out (*in this Vol.*), it has made it more difficult for the long-term unemployed and the repeatedly unemployed to obtain employment. At the same time, it indicates that social institutions, such as the systems for student financial aid, labour markets, and the changes within them, have had an obvious effect on the behaviour of individuals in the labour market. The reasons for the growing trend of students to seek employment include:

- an increasing number of adult persons have begun studying,
- the standard of financial aid to students has fallen behind the income development of other groups and living costs,
- students wish to get a foot in the labour markets already during their studies, thus to secure their position in the increasingly tough competition,
- employers have shaped the work duties and the terms and conditions of employment in such a way that facilitates the utilisation of students, especially in the service sector.

All things considered, the changes observed in the labour market behaviour of the different labour groups prompt us to ask whether the traditional employment relationship model has broken down. Such an allegation has in fact been

made both in the theoretical and in political debate (cf. Beck, 1999; 2000; Castells, 1996; Suikkanen, Linnakangas, Martti and Karjalainen, 2001). However, the findings covered by the contributions to this book suggest that this conclusion is clearly premature; instead of interpreting the labour situation as an all-encompassing crisis and turning point, they view the dam, although showing some leaks, has not broken after all. In other words, we are seeing significant changes in the midst of permanence. Based on the findings of our studies we draw the following conclusions:

- We do not join those who declare the end of autonomy and power of the nation state or a reduced importance of national choice. On the contrary, we find that national choices are still critical as society aims at adapting to global developments. The state's role as a stakeholder has certainly changed in that it has withdrawn from some policy fields, but it has increased its regulating support and financial aid in other fields. Technology and educational policy are examples of the state's changed, yet strengthened impact.
- In the context of regional differentiation, we do not declare an end to regional policy and local administration. Instead, we stress the need for a new type of policy for urban, growth-centre and rural areas. For the new economy, operational prerequisites are best brought about by co-operation between stakeholders and through far-sighted strategic choices. This implies *inter alia* that the functioning of the labour markets and the requirements of labour policy must be reassessed as a whole.
- Nor do we confirm an end to the traditional employment relationship model or centralised agreements. We find instead that the efficient use of capital and labour requires personnel development contractual flexibility with regard to social security, contracts of employment, working hours, or the protection of the unemployed. The conventional view, according to which there is a trade-off between flexibility and social security, is too simplistic, and therefore, misleading. There is no sustainable flexibility in the labour market without supporting security arrangement, while at the same time security requires flexibility. The two are intricately interrelated and reinforce one another. Therefore, the further development of employment and social rights can indeed be seen as a central guarantee for flexible production and functioning labour markets (Deakin, 2001).
- The increasing number of short-term employment relationships, the increased free occupational, regional and contractual movements of labour simultaneously with an increasing proportion of employment in the field of business services mean that the focus of policy reform should be shifted from an ideology giving prominence to deregulation to one that promotes employment and modernises social security systems.



Taking these conclusions together, the advent of a “second modernity” heralded by Beck would be an exaggerated interpretation of the change that has been occurring in Finland since the 1990s. The idea presented by Beck (2000) of a new social order in working society may have value in some other countries of Europe, where the structures of the labour markets and of the welfare state are different. The trends in Finland concerning labour market participation, regulation of employment relationships, education of the labour force, labour structures, and the work culture have not led to a profound erosion of the traditional employment relationship, but rather to reforms in these. The changes in the labour markets have necessitated and increased the role of local agreements, increasingly flexible working hours and adjustments in the contracts of employment legislation and in the labour and social security regulations, but the basic line has not broken down. A central reason for this is that Finland has a strong tradition of introducing changes in working life through negotiations both at the national level and at the company level, i.e., negotiated flexibility (Nielsen, 1996; Numhauser-Henning, 1997; Nieminen, 1999). The recession in the early 1990s brought pressure and a readiness for reforms at the policy, institutional and individual levels, but strong institutions and social values have safeguarded the social rights of individuals both in the working life and in society in general. It is appropriate to summarise the reform efforts in the post-recession era as an amalgam of a changed social policy regime and continuity of institutional structures and values.

#### *Active Contribution of Citizens*

This line might in fact be described in political terms as “active reforms in a field of strong welfare state institutions and permanence giving prominence to social values”. It has a long tradition and its own supporters in Finland. It should be kept in mind that Finland’s economic and welfare policy was used even in the past to emphasise, for instance, education and the development of educational systems as motors for structural changes. Examples in recent history are the expansion of vocational training in the 1960s, the reform of the university system in the 1970s, the reform of pre-school education and comprehensive schools in the 1980s and the creation of centres of learning and of the vocational college system in the 1990s. The reforms have produced an internationally recognised high performance of the Finnish educational system, indicated inter alia by the standards of literacy and mathematical proficiency (see OECD’s Pisa Study, 2002).

In one way or another all these reforms were related to structural changes in the economy and the working life. In Finland, the basis of strong regional and

welfare policy has existed also for reforms in the educational system. At all stages of reforms the political emphasis has included an expansion of the educational basis and the notion that education is a welfare service to which all citizens are entitled. Profound changes in the labour markets, including the formation of foundations for the information society, which took place in Finland in the 1990s, would hardly have been possible without the reform of the vocational and university systems and the creation of the vocational college system. (OECD Polytechnic Education in Finland, 2002.)

On the other hand, the institutional reforms would have hardly succeeded unless approved and supported by the people. There are additional explanations for the Finns' readiness to face drastic social changes. One explanation is surely that in the "social memory" of Finns education is a means of ensuring independence and strength. For example, it has been reported that the quest for mass education helped the Finns to weather the period of foreign control of the country under the Russian Grand-Duchy. There have been other periods of political, economic and social crises, which have given rise to mobilise resources for coping with external shocks and internal structural changes. Being a small, open, national economy dependent on exports, it has been a part of the Finnish national experience that booms and recessions in the economy have affected the Finnish economy with full power (Pekkarinen and Vartiainen, 1993; Koistinen, 1999). Big and small recessions have occurred fairly regularly, and in an economy whose development has been based on the forestry sector, the recessions have had a large impact also on agriculture and on the sectors upstream from the wood-processing industry, such as the metal and engineering industries, the electrical and electronics industries, and information technology. Thus, not only were national interest, national strong points and weak points understood widely in society, but also a cumulative experience of their effects accumulated across generations. This can be seen in the experiences of unemployment, heard in the tales of migration and emigration, viewed in the depopulation of the provinces and read in the histories of the birth of suburbs. (Pohjola, 1998; Roivainen, 1999) Together these social experiences have created resources for adapting to social change.

The citizens' preparedness for social change has been supported not only by schooling and education, but also by free popular education and public awareness activities. Within a historic context, that long chain which extends from agricultural and housekeeping guidance to maternity clinic services, from national health guidance and care of the disabled to modern rehabilitation and old-age welfare and service activities, from popular education activities to tele-cottages, one can identify a habit in Finland to promote social change by motivating the entire population to carry out the change. In our opinion, these same features can be seen in the manner in which Finns in the late 1980s began outlining

the information society project and in the manner in which it has been supported later, e.g. by programmes such as SITRA (Finnish National Fund for Research and Development), TEKES (Technology Development Centre), the Ministries of Education and Labour, and at the local level by technology development centres, provincial unions and municipalities. (Jääskeläinen, 2000; Roivas, 2000; Palokangas, 2001; Kuntapuntari 1/2001; POKAT, 1999). All of these underline that broad population layers should be involved in implementing reforms and that social ideas are needed also in the development of the information society's structures.

This volume substantiates claims that Finland was able to cope with the recession in the early 1990s and with the subsequent structural change and period of growth because participation in the change was on a wide front and took place through negotiations. Society's welfare services aided the individuals in this change. One can hardly imagine how otherwise society would have coped with the profound changes even at such small social costs. However, the favourable interpretation development aside, it must be pointed out that active political choices and structural necessities attracted both individuals and institutions to the changes. But have all benefited from these? Optimism can be read in, for example, the willingness to acquire education, the increased free occupational and regional movement, and the belief that temporary employment relationships and even those of short duration may lead to more permanent employment as demand improves. But, despite these positive aspects, one can also find increased uncertainty and deepening social divisions as well as increasing poverty. It is obvious that to be able to cope successfully with these risk factors, Finland now very seriously needs political reforms. The need for a comeback of politics is clearly indicated by the reports on growing income disparities, poverty and regional development (Riihelä, Sullström, Suoniemi and Tuomala, 2001; Ritakallio, 2001) and also by the reminders of the OECD and the European Union concerning reforms needed in the employment policy.

#### *Alternative Policy Recommendations*

As we argue for the return of politics and political economy, we realise that there are quite different recipes for a sustainable policy. The latest OECD Economic Survey of Finland (2001) recommends activation of fiscal policies, raising the effective age of retirement and the sustainability of the pension system, reforms of unemployment benefit systems to provide better incentives for the unemployed to find regular work, flexibilisation of the central wage bargaining system to reduce the regional and skill imbalances, to cut social security contributions for the low paid and to promote tax reforms to improve

the long-term performance of the Finnish economy. The European Commission's recipe has another emphasis. It calls for an increase in the employment rate and for diminishing long-term unemployment. It stresses the need to level out the gender segregations in employment and the wage gaps between men and women. (EC Recommendations for Employment Policies of Finland, Dec. 2001)

There are sound reasons to raise the effective age of retirement, promote tax reforms and enhance the functioning of social security systems. But the studies covered in this reader do not support that this is accomplished by cutting the social security of the most vulnerable, such as the low-paid, unemployed and under-employed workers. There are two reasons for this. According to our results, the Finnish labour markets and labour force especially are in effect very flexible and this flexibility has been a major asset feeding the economic recovery. If we look at the increase of occupational, regional and contractual mobility of labour or the increase of short-term employment we can argue that the reasons for persistent long-term unemployment and regional imbalances should be sought more widely at the level, structure and selectivity of demand and supply of labour. We concede that there are incentive traps for some groups of labour to take part actively in the labour markets. The imbalances do not originate in the generous transfer payments, but rather in the rigidities and incompatibilities of social security and transfer systems at large. Referring once again to our findings on the incentives to accept low-paid subsidised work, short-term employment, and new forms of work and working times, we argue that there is an urgent need for reforms in social security and transfer systems, but these reforms should be made to guarantee the income security and equal social rights for those who are now at risk. This means that the new reform policy should be tackled at the level of individuals and households and not only at the level of fiscal systems and authorities as was done during the recession. As various studies in this volume verify, the reforms should be targeted to improve the capabilities and social security of the unemployed, under-employed and temporarily employed in order to strengthen their labour market positions.

The recommendations of the European Commission are interesting and create a basis for political discourse. One of the recommendations concerns the targeted policies to alter the gender structures which bring about rigidities in the labour markets and inequalities between men and women. We accept this conclusion, but it remains unclear how to tackle these kinds of inequalities in a society that is in a rapid and multiphasic process of structural change that affects all the dimensions of the welfare and gender regimes. According to recent studies done in this field (Vartiainen, 2001; Mósesdóttir, 2001; Behning and Pascual, 2001), there are reasons to speak about the new pay gaps and inequalities, and about the remarkable changes inside the gender regime in Finland.

When looking at the behaviour of men and women in the labour markets it seems that the women are often even more flexible than men (in regard to occupational and regional mobility and contractual flexibility) and have contributed much to the economic recovery. But it is certain that they are often the group which faces the risks related to this flexibility. Therefore, we see reasons for active reforms in the income security and social rights on one hand, but at the same time, we see reasons for a strategic re-orientation of how the gender mainstreaming should be promoted in the new structural setting of the welfare state and economic competition.

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