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305

HOW TO COPE
WITH LABOUR
MARKET POLICY
TOOLS IN
ECONOMIC
DOWNTURN:
FINNISH
EVIDENCE*

Heikki Räisänen

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Valtion taloudellinen tutkimuskeskus

Government Institute for Economic Research

Hämeentie 3, 00530 Helsinki, Finland

Email: etunimi.sukunimi@vatt.fi

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Abstract: This paper discusses the Finnish experiences of Active Labour Market Policy (ALMP) across the economic cycle, especially in economic downturn. Cuts in unemployment spell duration have been the main factors to contribute in decreasing the unemployment in the recent years. Subsidised employment programmes have clearly a stronger countercyclical character than Labour Market Training programmes. Evidence on effectiveness of LMP states that employment services are of high quality and have positive effectiveness, the main LMP programmes have usually positive, but relatively small effectiveness with the exception of public sector employment programmes which have poor effectiveness. The employment obligations of the late 1980s and too high a volume of LMP programmes in the recession of the 1990s are examples of bad lessons. On the other hand, a more coherent LMP strategy with emphasis on the dynamics and prevention-oriented policy is a good lesson as is also the strategy to prepare for the ageing and scarcity of the labour force. LMP is not originally developed for economic downturn, but it can help to create a more employment-friendly economic policy by taking care of the functioning of the labour market and the availability of the labour when demand for it recovers. In downturn, the volume of LMP can be increased to create more dynamics to unemployment, but the selectivity should not be destroyed.

Key words: Labour Market Policy, economic downturn

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Tiivistelmä: Työssä käsitellään suomalaisia kokemuksia aktiivisesta työvoimapolitiikasta erilaisissa suhdannevaiheissa, erityisesti laskusuhdanteessa. Työttömyyden keston lyhenemisellä on ollut suurin vaikutus työttömyyden alentamisessa viime vuosina. Tukityöllistämisohjelmilla on selvästi työvoimakoulutusohjelmia voimakkaampi vastasyklinen luonne. Työvoimapolitiikan vaikuttavuustulokset osoittavat, että työvoimapolitiikan pääohjelmilla on yleensä myönteinen, mutta suhteellisen vähäinen vaikuttavuus, mistä poikkeuksena julkisen sektorin työllistämisohjelmat, joilla on heikko vaikuttavuus. 1980-luvun lopun velvoitetyöllistämisyjärjestelmä ja 1990-luvun lamavuosien liian korkea toimenpidevolyymi ovat esimerkkejä huonosta työvoimapolitiikasta. Toisaalta yhtenäisempi, dynamiikkaa ja ennaltaehkäisyä painottava työvoimapolitiikan strategia sekä työvoiman ikääntymiseen ja niukkuuteen valmistautuva strategia ovat hyviä esimerkkejä työvoimapolitiikasta. Työvoimapolitiikkaa ei ole alun perin kehitetty laskusuhdanteeseen, mutta se voi auttaa työllisyssisällöltään paremman talouspolitiikan harjoittamisessa huolehtimalla työmarkkinoiden toimivuudesta ja työvoiman saatavuudesta kun työvoiman kysyntä kasvaa. Laskusuhdanteessa työvoimapolitiikan volyyymiä voidaan nostaa jotta työttömyyteen saadaan luotua lisää dynamiikkaa, mutta työvoimapolitiikan valikoivuutta ei pitäisi hävittää.

Asiasanat: työvoimapolitiikka, laskusuhdanne

Finnish Summary

Työssä käsitellään suomalaisia kokemuksia aktiivisesta työvoimapolitiikasta erilaisissa suhdannevaiheissa, erityisesti laskusuhdanteessa. Suomen taloutta ja työmarkkinoita ovat leimanneet voimakkaat suhdannevaihtelut. Työttömyyden voimakkaan alenemisen jälkeen jäljelle on jäänyt eurooppalaisittain edelleen korkea työttömyys sekä kireä työn verotus. Palvelusektorin nousu voi muuttaa kasvun työllisyysisältöä paremmaksi kuin pitemmällä aikavälillä on ollut tilanne.

Suomen työvoimapoliittinen järjestelmä huolehtii monista tehtävistä, kuten työnvälityksestä ja työmarkkinainformaatiosta, aktiivisten työvoimapoliittisten ohjelmien kuten tukityöllistämisen, työvoimapoliittisen aikuiskoulutuksen ja työharjoittelun järjestämisestä sekä työttömyysturvan saamista koskevien edellytysten tutkimisesta. 1990-luvun laman jälkeen työttömyyden aleneminen on tapahtunut pääosin työttömyysjaksojen keston lyhenemisen kautta, sen sijaan työttömyysjaksojen määrä on edelleen korkealla tasolla. Työvoimapolitiikan pääohjelmalajeista tukityöllistäminen on selvästi työvoimakoulutusta voimakkaammin vastasyklinen toimenpide, ts. sitä lisätään matalasuhdanteessa ja vähennetään korkeasuhdanteessa.

Työvoimapolitiikan tuloksellisuutta koskeva seurantatieto osoittaa, että rakenteellinen työttömyys on alentunut varsin nopeasti. Bruttovirtojen tarkastelu osoittaa, että työvoimapolitiikan avulla päätyneiden työttömyysjaksojen ja työvoimapolitiikan ohjelmien jälkeisen uudelleen työttömäksi joutumisen välinen ero on supistunut viime vuosina eli bruttovaikutus on parantunut enemmän kuin volyymia on laskettu. Työvoimapolitiikan palvelut ovat yleensä laadukkaita ja niillä on positiivinen vaikuttavuus. Tukityöllistämällä ja työvoimakoulutuksella on yleensä positiivinen, joskin suhteellisen vähäinen vaikuttavuus. Poikkeuksena on julkisen sektorin tukityöllistäminen, jolla on heikko vaikuttavuus.

Työvoimapolitiikkaa ei ole alun perin kehitetty laskusuhdanteeseen. Sen avulla voidaan päästä työllisyysisältöltään parempaan talouspolitiikkaan, jos työvoimapolitiikka huolehtii talouden kasvun edellytyksistä työmarkkinoiden toimivuuden ja työvoiman saatavuuden osalta. Työvoimapolitiikan avulla ei voida kuitenkaan laajassa mitassa laskusuhdanteessakaan pyrkiä luomaan työpaikkoja. Työvoimapolitiikassa ei ole oikeastaan olemassa puhtaasti suhdannepoliittista osaa, vaan erityisesti rakennetekijät ja myös hyvinvointitekijät on otettava huomioon. Optimaalinen politiikkatoimenpiteiden valinta ei ole vain valintaa eri toimenpiteiden välillä, vaan parhaiden politiikkavastausten valintaa kulloiseenkin työmarkkinatilanteeseen sekä kohderyhmien asemaan. Matalasuhdanteessa työvoimapolitiikan volyymia voidaan kasvattaa, mutta sen valikoivuutta ei pitäisi hävittää. Vuoden 2003 hallitusohjelmassa työvoimapolitiikan vastasyklisiä elementtejä vahvistetaan.

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1. Introduction

This paper discusses the possibilities of Labour Market Policy (LMP)¹ and especially Active Labour Market Policy in the period of economic downturn in the light of Finnish experience. Focus is mainly in the experience of the 1990s and in the recent years. However, Finland has a long history of labour market policy dating back to the 19th century.

Finland has a population of 5.2 million people of which 2.6 million are in the labour force. According to the Labour Force Survey, about 237,000 people were unemployed in 2002. The standard employment rate stayed at 67.7 per cent as in 2001.

Finnish economy has not only experienced normal cyclical variation, but in the beginning of the 1990s it faced the most severe economic recession in the OECD countries after the second World War. As a relatively small and open economy which was earlier heavily dependent on a couple of industrial sectors only – especially forestry and metal industries – the cyclical variations have often been deeper than in many other countries.

In the 1990s, EU membership from 1995 on and preparations for membership in the European monetary union had influence on economic policy also in the longer term. Finland launched the euro from its beginning in January 2002. In 2003, the basis of Finnish economy is strong. However, the economic growth still remains very modest after two years of slow growth. Developments in the levels of employment and unemployment are successful after 1994 even in European standards, but there still remains a large structural component in unemployment.

As policy and institutional contexts are often decisive, these aspects are discussed in the paper which is organised in a following way: the second part enlightens the main characteristics of the Finnish economy and the labour market which form a context for labour market policy. The third part presents the LMP system as a whole as well as the main measures, their volumes and functioning. The fourth part presents some evidence on the outcome and effectiveness of LMP based on evaluation studies and monitoring. The fifth part discusses some main lessons from the Finnish LMP experience in the fields of strategy, policy and implementation focusing especially in the 1990s. The sixth part summarises conclusions for policy-makers.

¹ Abbreviations used in this paper are: LMP for Labour Market Policy, ALMP for Active Labour Market Policy, LMT for Labour Market Training and LTU for long-term unemployment.

2. The context: Finnish economy and the labour market

From the point of view of the global economy Finland's natural resources are rather limited (based mainly on forests and minerals) and the quantity of labour resources even more limited. Therefore Finland has based the competitive strategy on investing in skills and education to create a dynamic economy. Instead of trying to imitate the larger nations in competing with volume or price of labour to succeed in global competition, Finland specialises in sectors where fewer countries can compete. This requires a highly skilled labour force and solid functioning of the whole society, the educational system, the social policy system and the labour market. In Finland the aim of this competitive strategy is to create high productivity jobs.

The other side of the coin is a relatively large structural unemployment problem that has appeared in the economy. Once unemployment has risen, it is difficult to force it back to the levels of the previous economic upswing. This so called hysteresis phenomenon (see e.g. Layard – Nickell – Jackman 1991) seems to work in Finland, too. That kind of phenomenon on individual level among young people is analysed by Hämäläinen (2003, forthcoming), who finds that even after controlling for observable and unobservable heterogeneity, past unemployment increases the probability of current unemployment by almost 20 percentage points on average. Those without the necessary qualifications for today's labour market and with long unemployment periods behind them, may not be able to find new jobs. However, long-term unemployment has been cut even more than total unemployment in the recent years.

In 2002, Finnish unemployment level was still higher than the EU average, but economic growth was faster and inflation about the same as EU level. The most remarkable difference was found in the public sector balance where the Finnish situation is clearly better than the EU average.

Coexisting high unemployment rate and high labour taxation is one of the most difficult problems. When trying to maintain the welfare services of the society and invest in the skills of the population, there is only a limited space for tax cuts even taking their dynamic aspects into consideration. And the higher the labour taxation is, the bigger the hindrance for creating new jobs.

The average effective tax rate on labour is very high in Finland compared to the other EU member states. Having dropped from the record high figures of 48.8 per cent in 1994 with the coexisting good employment gains in the economy, this figure was still 44.3 per cent in 2001.

Figure 1. Finnish economy in comparison to the EU average in 2002
(Source: Eurostat, Statistics Finland)

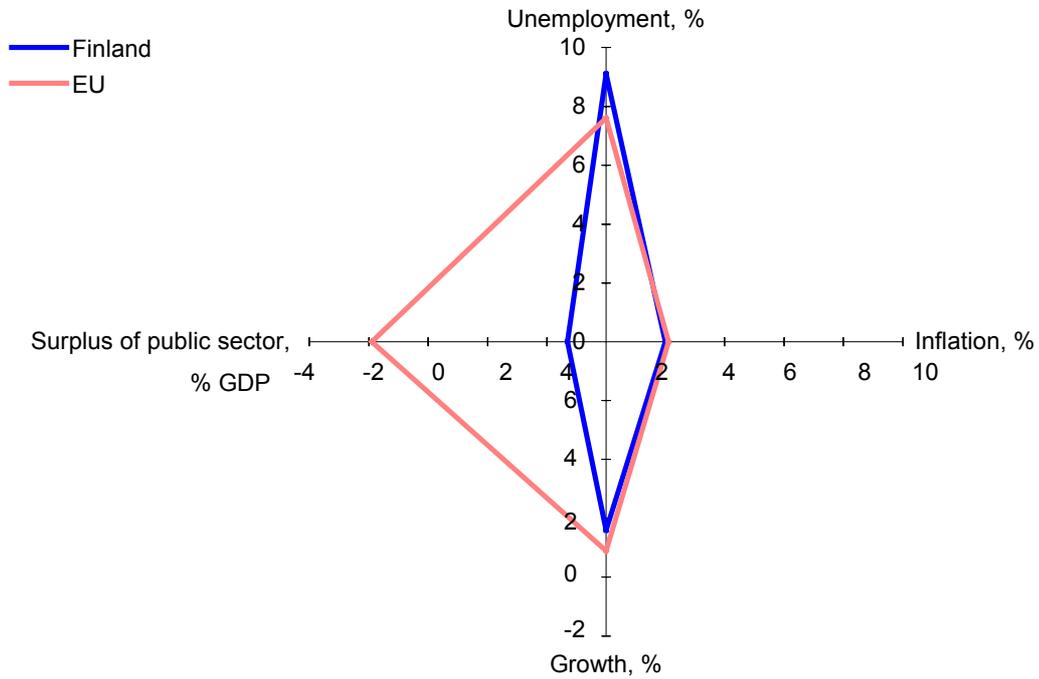
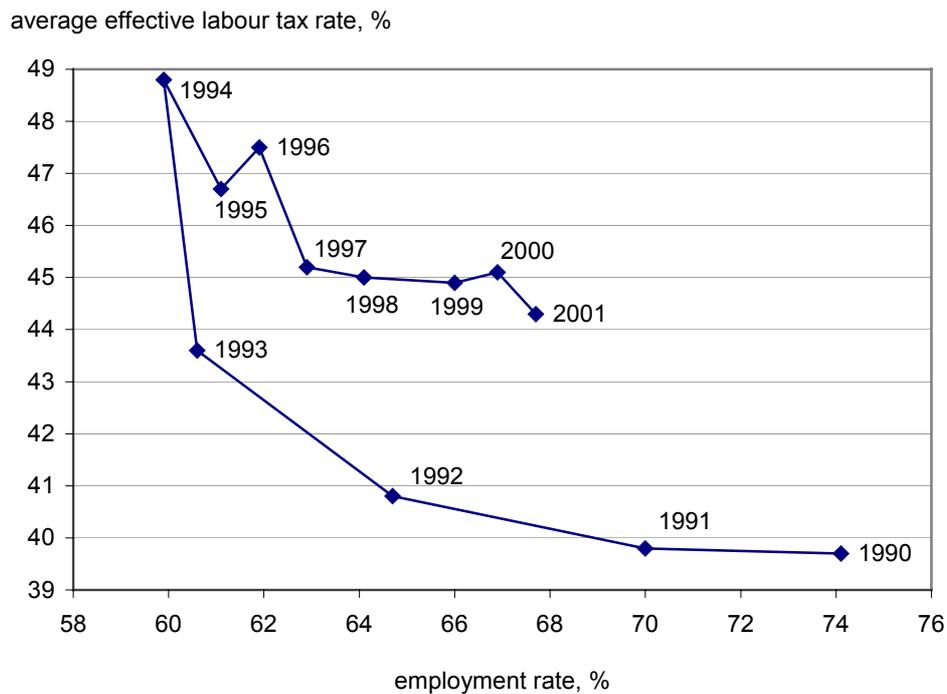
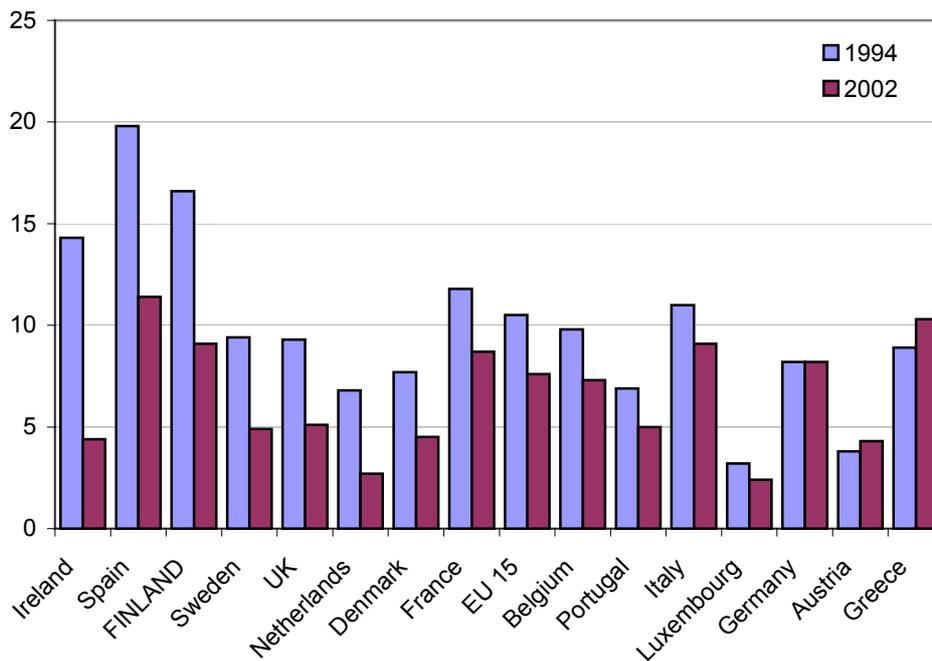


Figure 2. Dependency between employment rate and labour taxation in 1990–2001, % (Source: Lyytikäinen 2002 & updated calculations, Statistics Finland)



Between 1994 and 2002, employment gains reached the level of 318,000 jobs, but this was not sufficient to "replace" the job losses from the recession (453,000). Unemployment fell by some 7.5 percentage points or 171,000 persons. The average GDP growth between 1994 and 2000 was about 4.5 per cent annually, but has slackened since 2001.

Figure 3. Unemployment rate in EU countries in 1994 and 2002 according to the order of improvement from left to right (Source: Eurostat)

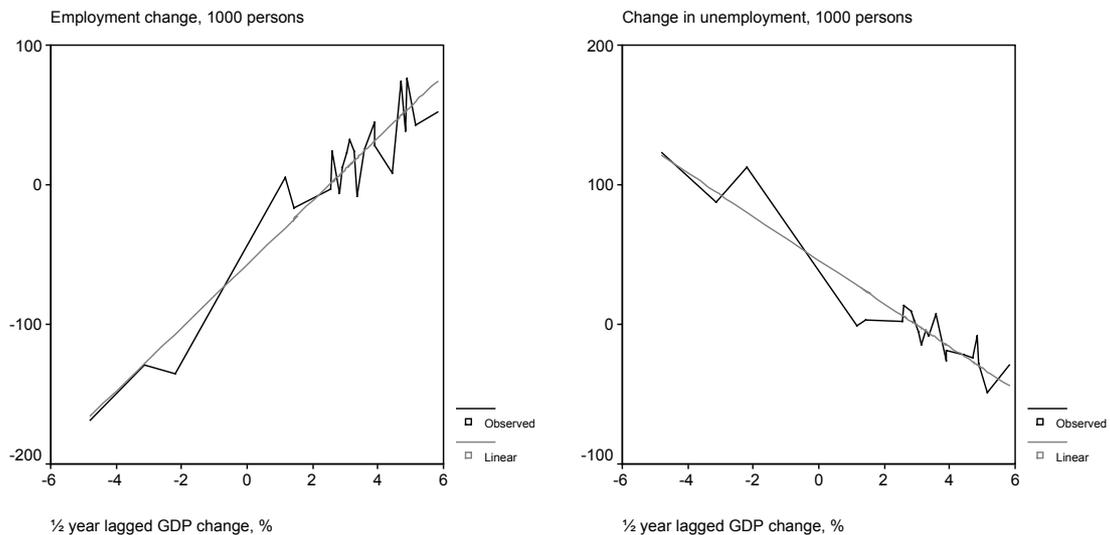


Unemployment rate in Finland has gone down quite rapidly in comparison to the other EU member states. Only in Ireland and Spain has the decline in unemployment rate in percentage points been greater than in Finland between 1994 and 2002. For the labour market, the recovery after the recession took several years. The unemployment rate has fallen from almost 17 per cent level in 1994 to about 9 per cent in 2002. However slow this positive development may appear, according to the OECD it has already in 1998 been "one of the steepest declines ever recorded in the OECD area in such a short period" (OECD 1998, 2).

Figure 4. Employment and unemployment in 1980–2002, 1000 persons



Figure 5 a-b. Dependency between employment change and economic growth (a, left) and unemployment change and economic growth (b, right) in 1981–2002² (Source: Statistics Finland)

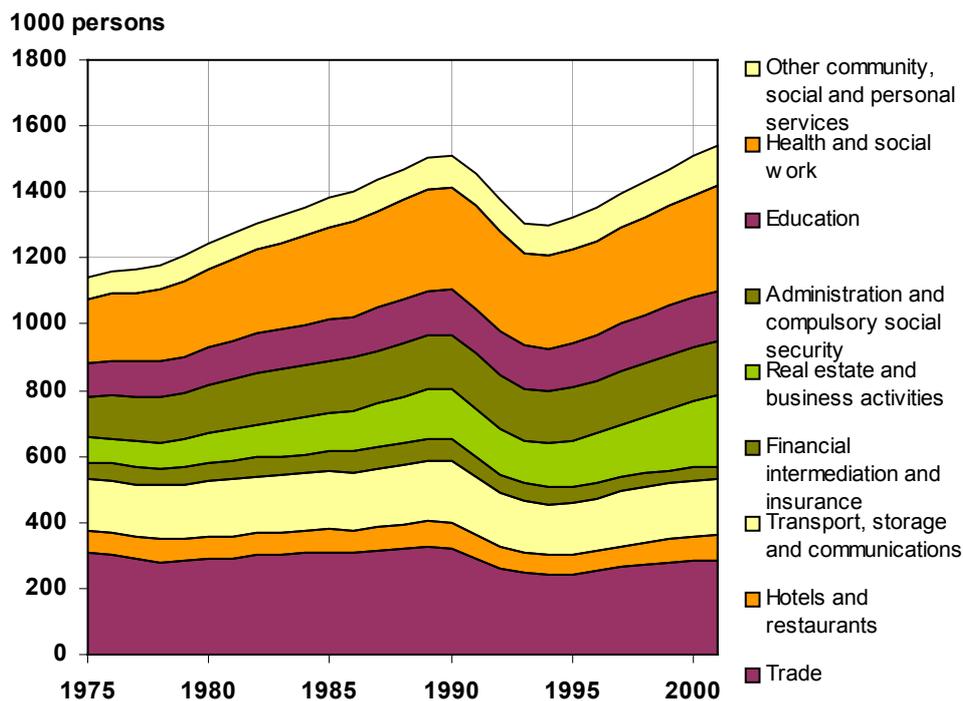


² Regression equations: A) $rsq=91\%$, $d.f.=20$, $F=211,1$, $sigf=0,000$, $Y= -57,1+22,7X$, where Y =employment change, 1000 persons, X = $\frac{1}{2}$ year lagged GDP growth, B) $rsq=90\%$, $d.f.=20$, $F=184,5$, $sigf=0,000$, $Y=46,1-15,6X$, where Y =unemployment change, 1000 persons (Labour Force Survey), X = $\frac{1}{2}$ year lagged GDP growth. Unemployment change is slightly more accurately ($rsq=92\%$) estimated using registered unemployment figures.

Dependency between employment growth and economic growth on the one hand and unemployment and economic growth on the other is clear. In the long run, critical GDP growth (with ½ year lag) needed for employment gains is 2.5 per cent and for unemployment cuts 3.0 per cent. The difference between these figures can be explained by labour supply effect: the better the situation in the labour market, the more people enter the labour market and vice versa. The development of the service economy is turning the dependencies towards a more employment-friendly direction as lower growth is needed for new jobs.

Besides the more traditional cornerstones of the Finnish economy, i.e. forest industry and metal industry, IT industry gained importance especially in the 1990s. However, Finland is a highly developed service economy with almost 68 per cent of the employed population working in the tertiary industries, some 27 per cent in the secondary industries and finally, some 5 per cent in the primary industries in 2002.

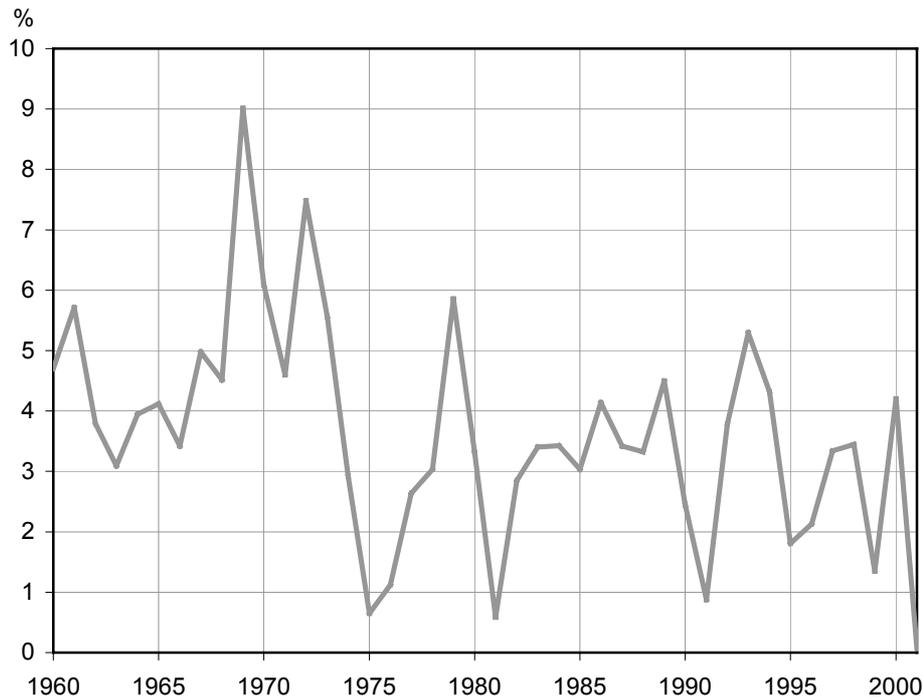
Figure 6. *Labour force in services in 1975–2001, 1000 persons (source: Statistics Finland / National Accounts)*



Similarly to other European countries, the main employment gains in the last decade have been recorded in the broad services sector. Especially business services (computer, real estate, insurance, banking), distribution services (trade, transport and communication) and personal services (hotels and restaurants, recreation and culture and other) have created a number of new jobs. Social services, on the other hand (public administration, education, social and health

and other) have more or less failed to create new jobs. It is also necessary to mention that it is difficult to define whether something in the "new economy" should be classified as manufacturing or services, as a large share of the functions of technology companies consist of services, but they can still be basically manufacturing companies.

*Figure 7. Changes in Labour productivity in Finland in 1960–2001, %
(Source: Statistics Finland / National Accounts).*



This development has also had an impact on labour productivity. In the service sector, labour productivity probably tends to be more moderate and more employment-friendly than in industrial branches. However, some services, e.g. business services can create high labour productivity, which is much more difficult e.g. in nursing or teaching even with the help of modern technology and good organisation.

Trade union coverage is high among employees. However, trade union membership is decreasing slowly. The share of members covered by trusteeship equalled 79 per cent in 1994, but only 71 per cent in 2001. The highest share is reached in public service industries, 87 per cent, and the lowest in private service industries, 55 per cent. Also employers are effectively organised in Finland. (Ahtiainen 2003). Collective bargaining has often taken place at the central level, which seems to produce more moderate wage increases than decentralised

negotiations at union level. The government usually tries to help in reaching moderate wage agreements at the labour market by making certain fiscal and taxation measures conditional on the outcome of the negotiations and the coverage of the agreement.

Social partners have an advisory role in government policy-making. Tripartite bodies discuss the strategy and implementation of active labour market policy and unemployment benefits regularly. This kind of cooperation between the government, employees and the employers is carried out on regional and local level, as well. In recent years, the employers' organisations have been more active in making initiatives to develop employment services as the trade unions seem to have been more interested in unemployment benefit issues.

3. The policy: How does the Labour Market Policy system function?

The Finnish Public Employment Service carries out broad duties. It takes care of job broking functions by electrical (Internet and Intranet) services and traditional personal services for both employers and job-seekers. The PES offers Labour Market Training, Subsidised Employment and Practical Training for its customers. It also takes care of preparing binding eligibility statements for unemployment benefits, paid by other authorities or insurance funds. Besides these main functions, a number of more limited programmes exist. Services are provided not only for unemployed persons, but also employed persons looking for a new job, students willing to work part-time or during the summer season as well as persons willing to re-enter the labour force. Also persons planning to start their own business are served. Part of the LMP programmes are co-financed by the European Social Fund. (Räisänen 2003, 61).

Employers can receive adequate job applicants free, but some recruitment and outplacement services are also charged for. A rather limited private employment service branch does also exist. This is seen not only as a competitor to the PES, but a provider of additional services for small segments of the labour market, which helps in achieving a better functioning labour market.

The PES actually produces the basic functions, like job-broking and personal guidance and counselling, but organizes labour market training by purchasing it through competitive tendering process. Decisions on placement at subsidized jobs, practical training or apprenticeship training are taken at the PES after the employer has decided on the placement matter. Certain functions, like job-search training are both produced by the PES and purchased from the market.

Unemployment benefits and their interconnection with ALMP

Unemployment benefits are either earnings-related insurance-based, or flat-rate labour market support³. The unemployment insurance benefits can be received at 500 days maximum. The labour market support has no maximum duration, so it is in theory payable for 48 years.

From LMP point of view, the insurance system works quite well: the benefit periods are often relatively short and the beneficiaries usually find open labour market jobs. The problems are mainly connected with the labour market support with unlimited duration. The beneficiaries receive the benefits for long periods with lower than average job chances. Only young people without work history

³ There actually exists also a small number of flat-rate insurance benefits.

are relatively easily employable regarding the labour market support beneficiaries.

Labour market support is an unemployment benefit system which is payable for those unemployed job-seekers who do not meet the work history requirements of the insurance system or are not insured at the unemployment insurance funds or have received the insurance benefit for the maximum of 500 days. In order to receive the labour market support, no work history is required, but there is a waiting period. On the other hand, insurance benefits are payable for those persons who have been insured at the insurance funds. For young people without vocational qualifications aged under 25, the labour market support scheme is conditional on participating in active LMP measures and they have an obligation to apply for suitable regular education.

The net replacement rates in the insurance system at average production worker (APW) wage levels are some 44 per cent for single person households, 83 per cent for lone parent with two children, 95 per cent for a couple with one breadwinner, 62 per cent for a couple with two children and the higher income earner unemployed. The net replacement rates in the labour market support system are high for families with children but usually under 30 per cent of the previous earnings for single persons. (Remain in or withdraw from the Labour Market, forthcoming 2003).

The interconnection between passive and active LMP measures is important for the effectiveness of active policies. In Finland participating in subsidized employment measures covers the requalifying period for the insurance benefit. However, the average duration is about 6 months at these programmes and 8 months is needed for requalifying (the initial time-at-work condition is 10 months). In labour market training programmes, a person receiving insurance benefits before the training period, the number of days is frozen during the training. However, there is no evidence that the unemployed would try to stay longer on benefits by participating in training programmes, as training also is a demanding task for an individual. This does not mean that it would not be the case for some participants. It is considered that the unlimited duration of the labour market support benefits increases unemployment spell duration and the stock of unemployed remarkably. There are usually good incentives for most people to search for a new job, but incentive problems still exist especially among families with children. The employability of persons with long unemployment duration is of course worse than average.

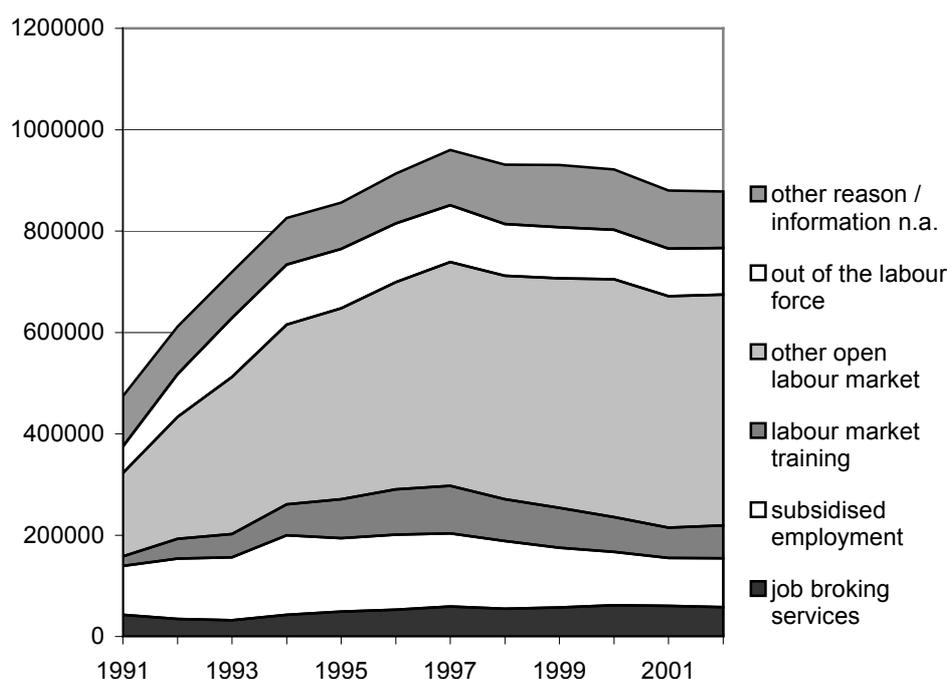
The dynamics of unemployment and LMP

The dynamic approach is considered to be of utmost importance, as the number of activation possibilities defines how many job applicants can take advantage of the active programmes and services. This is also part of the total dynamics of

unemployment, which is seen important from the point of view of employability (see appendix for stock-flow figures on unemployment and job vacancies). The inflow into traditional labour market policy programmes (subsidies, training) has decreased since 1997 as unemployment has also been cut and the open labour market labour demand has increased. Taking the new services, especially the job club method (which does not terminate the unemployment period) into account, the activation measures offered increased in number. Also other services like regular fixed-term interviews, job-seeking plans and skill-mapping have been developed for the job-seekers. On the other hand, the stock approach defines in practice the total costs of LMP programmes. The stock of ALMP has been cut since 1997. The flow approach has more to do with implementation capacity presuming a certain budget limit holds.

One indication of the positive labour market development of this "more activation with short duration tailor-made services – less spending on general ALMP programmes" is the so called broad unemployment which has gone down steadily. This figure which combines the stocks of open unemployment and active measures proves that cuts in the stock of active measures has not turned out to increase open unemployment even during 2001 and 2002 of slight economic growth. This kind of activation policy and the aim of cutting the duration of unemployment is also strongly present at the German LMP reform plans (Moderne Dienstleistungen am Arbeitsmarkt 2002).

Figure 8. Outflow from unemployment by reason in 1991–2002 (Source: Ministry of Labour Statistics)



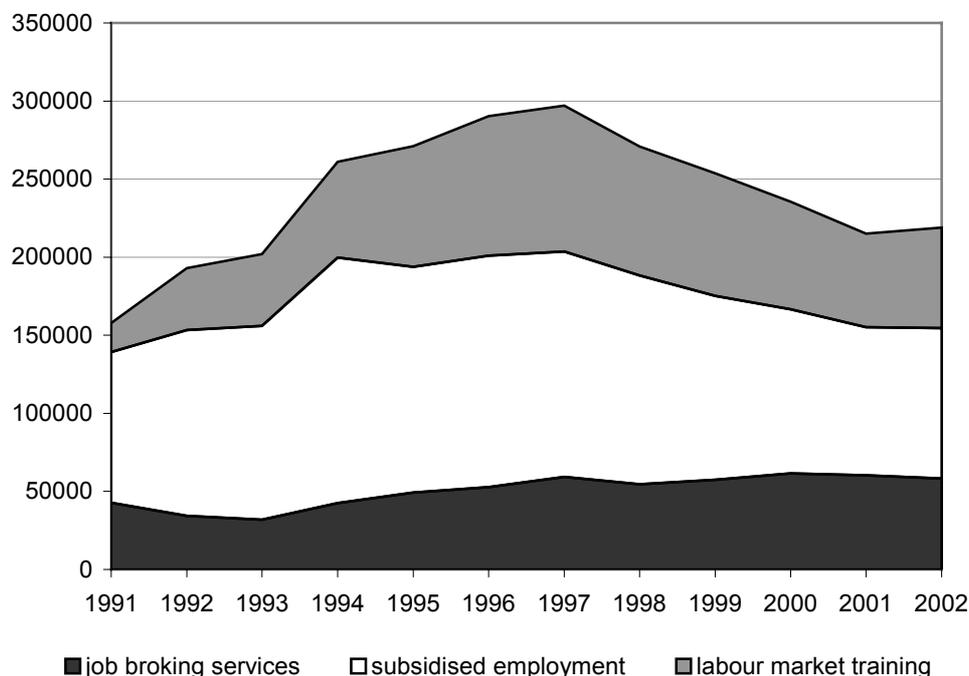
One of the main ideas of labour market policy is demonstrated in the figure above. The major share of terminated unemployment periods come to an end because people find jobs independently with the help of some employment services. The idea of LMP is to help people to be active and find jobs relatively rapidly with the aid of self-service or personal service. LMP can then help more intensively those people with difficulties in job-finding. Self-service equipment at the employment offices and high-quality databases for job vacancies help the matching function, job-seekers are also trained for independent job-search behaviour. The job seekers can take a look at the vacancies (besides the employment offices) at public libraries if they do not have a computer with access to internet at home.

Table 1. Components of unemployment: incidence and duration in 1991–2002 (Source: Ministry of Labour Statistics)

<i>year</i>	<i>Number of new unemployment periods (inflow)</i>	<i>Duration of terminated periods, weeks</i>
1991	609,694	13
1992	749,374	18
1993	812,533	21
1994	819,789	25
1995	847,638	25
1996	906,945	24
1997	904,111	22
1998	900,602	21
1999	910,577	19
2000	894,043	18
2001	871,233	18
2002	878,329	17

As table 1 shows, the duration of terminated unemployment periods has decreased almost continuously since 1995. On the other hand, the risk of becoming unemployed has decreased only very slightly. The contribution of shorter duration is decisive on the stock level of unemployment. On average, unemployment periods still lasted about 50 weeks in 2002. The contribution of one week's cut in duration can be calculated to equal about 16,900 in stock terms with the inflow of 2002. On the other hand, the decrease in incidence experienced since 1996, i.e. 28 616 started periods, can be calculated to contribute only about 9,400 in the stock of unemployment as the decrease in duration which actually happened during the same period, i.e. 7 weeks, can be estimated to have contributed 118,200 cut in stock terms using the inflow of 2002.

Figure 9. *The number of unemployment periods terminated by LMP measures in 1991–2002 (Source: Ministry of Labour Statistics)*

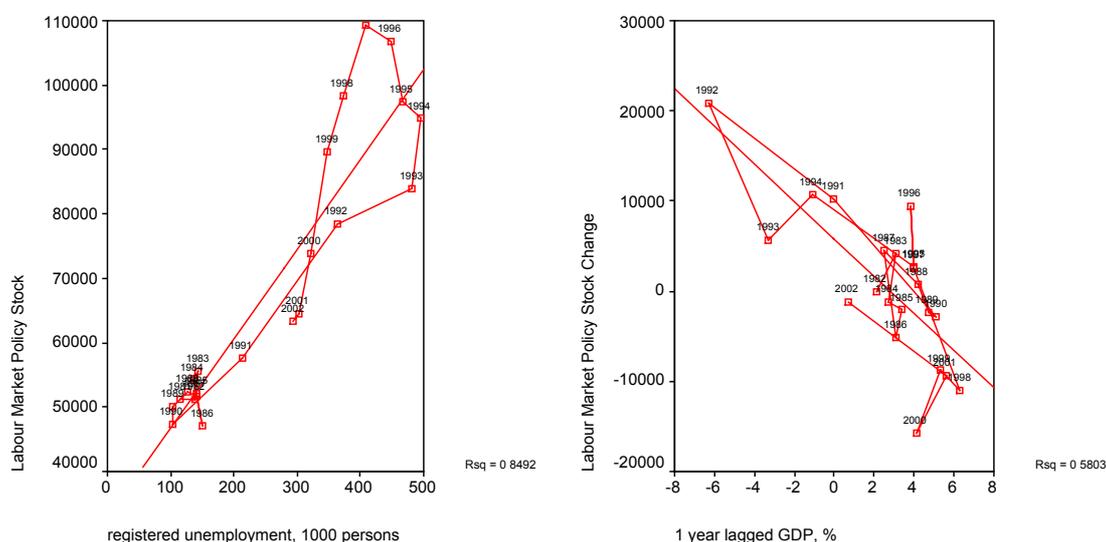


LMP reacted quite slowly against the economic recession. This was partly because of the limited resources in the middle of the economic crisis, partly because it was difficult to see the real economic and labour market developments ahead. The economy turned back to the path of growth in 1994, but the labour markets did not. The maximum volume of LMP measures was reached in 1997, when a stock volume of about 5 per cent of the labour force was participating in ALMP programmes. In 1997, a LMP reform was prepared (Räisänen – Skog 1998) and part of the reform included cuts in the volume of active programmes. New services were developed and the active programmes reformed to better meet the skill requirements of the recruiting employers.

LMP volume over the cycle

Next we will take a look at the volume of main LMP measures: Subsidised Employment and Labour Market Training Programmes. We can ask a question: what is the main factor explaining the volume of LMP?

Figure 10 a-b. Registered unemployment and stock of main LMP measures, (a, left) and lagged GDP and LMP stock change (b, right), both figures with regression line and annual change (Source: Ministry of Labour Statistics, Statistics Finland)



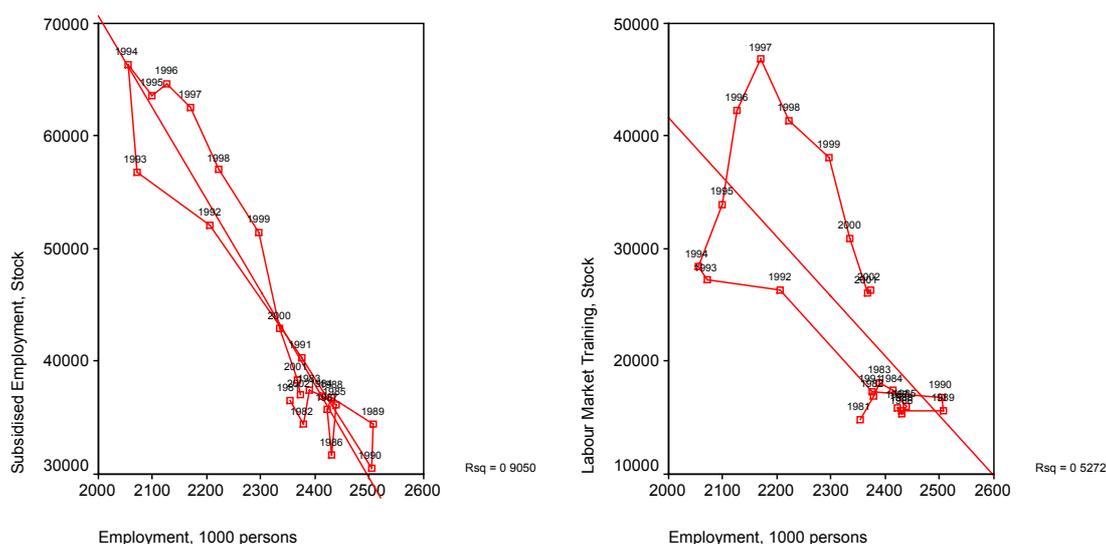
Analysing the dependency between employment, unemployment and economic growth on one hand, and labour market policy stock or stock change on the other shows some phenomena of interest from the cyclical policy point of view. The data covers the period from 1981 to 2002 and represents the stocks of the main LMP measures, i.e. subsidised employment and labour market training programmes. The total LMP stock is somewhat higher but the cyclical behaviour does not vary remarkably from that observed with the main measures. The figures above represent the best fits found.

It seems evident that the LMP stock level is mainly defined by the level of registered unemployment. 85 per cent of the variance is explained this way. In the period between 1981–2002, the stock of unemployment is more tightly connected with the volume of subsidised employment ($rsq=86\%$) than the volume of LMT ($rsq=69\%$). The level of employment is the second-best predictor for the stock level, and for subsidised employment stock it is much better ($rsq=91\%$) than for LMT ($rsq=53\%$). So, the employment measures seem to have much more of a cyclical character than training measures. Employment measures are also targeted solely for the unemployed persons as other target groups can participate in LMT.

However, taking the LMP stock change into focus, the dependency is best with the previous year's GDP growth ($rsq=58\%$). Employment change is the second-best ($rsq=48\%$) and registered unemployment change the third ($rsq=44\%$). The

results of this statistical exercise sound reasonable in the author's experience: the starting point of the planning and budgeting of LMP is the current stock level, current unemployment and predicted changes. GDP change is the factor which is most often predicted, therefore planned volume changes in LMP measures are often based on it.

Figure 11 a-b. More and less countercyclical LMP measures: Employment and Subsidised Employment (a, left) and employment and Labour Market Training (b, right) in 1981–2002 with regression line and annual change (Source: Ministry of Labour Statistics, Statistics Finland)



The costs of LMP

During the last years, costs of LMP as a share of GDP have decreased as the following tables demonstrate:

Table 2. The costs of LMP in 1997–2000, million Euros (Source: Ministry of Labour)

	1997	1998	1999	2000
Active measures, MEuros	1441.4	1302.7	1272.0	1145.5
Passive measures, MEuros	3372.1	2974.1	2846.2	2746.6
LMP total, MEuros	4813.5	4276.8	4118.1	3892.1
Share of active measures, %	29.9	30.5	30.9	29.4

Table 3. The costs of LMP as a share of GDP in 1995–2001, selected years (Source: OECD Employment Outlook 1999, 2002)

	1995	1997	1999	2001
Active measures, % of GDP	1.58	1.57	1.22	0.95
Passive measures, % of GDP	4.01	3.21	2.33	2.02
LMP total, % of GDP	5.59	4.78	3.56	2.96

The share of active measures has remained about the same of the total during the recent years. As the economy has grown rapidly, the GDP share has come down more rapidly than the nominal costs.

Active labour market policy is mostly financed by the state, but the social partners participate in financing. In principle the state finances the flat-rate benefits and active measures and the insurance system is cofinanced by the employers, the employees and the state. Basically the state finances the same flat-rate amount of all benefits, so what is important for the state is the behaviour of the benefit recipients. In 2002, the costs of unemployment benefits totalled 2,341 million euros, which was 6 per cent more than in 2001. The costs of the insurance benefits represented some 57 per cent of the total. The 43 per cent share of the labour market support consists of 764 million euros for passive benefits and 239 million euros for active measures (including labour market support paid for the employer as an employment subsidy, benefits paid during labour market training and practical training). 53 per cent share of all benefit days were labour market support benefit days. Besides these regular passive LMP measures, unemployment pension benefits were payed for 740 million euros. (Ministry of Labour Employment report 2002).

4. The outcome: Effectiveness of labour market policy

Indications of effects

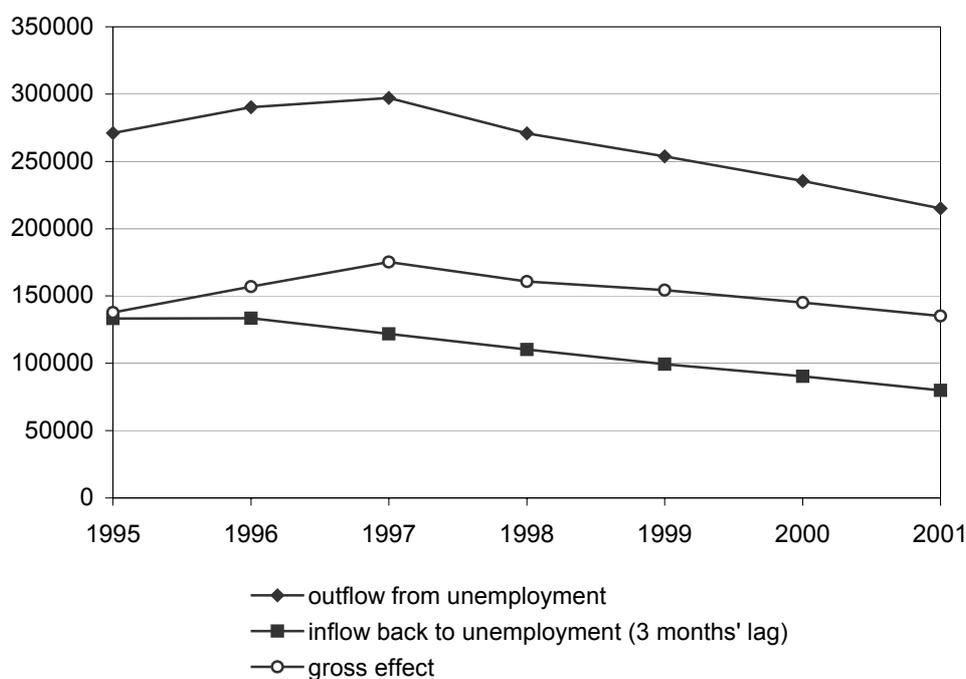
One indication of the effects of LMP is the development of long-term unemployment and unemployment. According to a project group report, structural unemployment consisting of mutually exclusive groups of 1) long-term unemployment, 2) recurrent unemployment, 3) unemployment after LMP measures and 4) recurrent participation in ALMP measures has decreased by over 35 per cent between 1997–2002. At the same time, total unemployment decreased by 28 per cent and ALMP measures by 36 per cent. Broad unemployment consisting of the unemployed and ALMP programme participants was cut by 30 per cent. Taking the rapid drop in open labour market job probability as unemployment duration increases into account (see appendix for stock-flow figure of unemployment), it is very likely that LMP as a whole has contributed in cutting structural unemployment⁴ (Unloading structural unemployment, 2003, 16). If this holds true, the main contribution must have been achieved by improved employment services and the preventive approach, i.e. limiting unemployment prolongation at an early stage. The probability for long-term unemployment has decreased at the late 1990s from 25 per cent levels to under 10 per cent. Cyclical downturn has, however, in 2002 changed the situation towards longer unemployment duration (on annual level the duration of terminated periods still shortened by one week) and the inflows and outflows of LTU were about equal in magnitude in the Autumn of 2002. The inflows into long-term unemployment still decreased in the economic downturn in 2001 and even later, but LTU reacts to the market developments with a lag.

Another important indicator of the success of the LMP system is how it passes the market test of the recruiting employers: what share of the employers report the job vacancies to the PES. There are two kinds of market share indicators used at the Finnish PES: the first one is the market share of the PES of all external recruitment of the plants and the other one the share of the PES of recruitment using public recruitment channels like newspapers, the PES or private employment agencies. The first market share has varied between 29–44 per cent in 1994–2001. The highest market shares for external recruitment are reported for the years 2000 (44 %) and 2001 (41 %). The second PES market share has varied between 66–71 per cent between 1994–2001. It equalled 65 per cent in 2000 and 62 per cent in 2001, respectively. (Tuomaala, 2001 and updated information). The first market share indicator shows some positive development, which may, however, be partially explained by the economic and labour market situation. In

⁴ This kind of operational definition for structural unemployment developed at the Ministry of Labour based on statistics is very useful and understandable for decision-makers, also. Concepts like NAIRU or NAWRU are much more complicated and require estimation.

2001, when the economic growth decreased from the previous years' levels, the market share started to decline, also.

Figure 12. Gross flows between unemployment and LMP measures in 1995–2001, number of unemployment periods with 3 month's monitoring lag (Source: Ministry of Labour statistics)



One way of getting indications of the success of LMP measures is to monitor the gross flows between unemployment and the measures. The figure above is based on the flows with a three month's monitoring delay, which of course gives too positive results in relation to the zero delay or actual gross flow. On the other hand, there is no job-search time with zero delay and the figure above consists of the same data for every year. Cuts in LMP programmes turned the outflow from unemployment down since 1997, but so did also the inflow back to unemployment three months after the completion of the programmes. The gross effect of LMP has diminished since 1997, but the difference in relation to the volume of LMP has also become narrower. This is caused mainly by two reasons: the increase in open labour market job-broking (where there is no inflow back to unemployment, only the outflow from unemployment) and the better gross effects of the programmes. However, the net effectiveness is reached by estimating side-effects, like dead weight, displacement and substitution effects of the programmes as well. It seems reasonable to think that dead weight effects are procyclical in character, i.e. they increase in the period of economic growth, and displacement and substitution effects countercyclical.

Evidence on effectiveness

Based on the OECD member states' experience, Martin (2000) concludes, that thorough counselling, work incentives and job-search programmes should be relied on. Public training programmes should be of small-scale and carefully targeted to the special needs of employers and job-seekers. In youth programmes early intervention is important. With longer unemployment duration, employment subsidies may help to keep in touch with the labour market. Subsidies should be of short duration, targeted and carefully monitored.

Wells (2001) goes straight to the fundamentals of LMP in emphasizing the provision of labour market information aimed at bringing together people without jobs and jobs without people. Wells refers to millions of transactions and the diversity and decentralised nature of modern society as grounds for this argument. The relevance of this often neglected labour market information point is seen clearly in the dynamics of labour markets: e.g. in the United Kingdom over three quarters left unemployment during the first six months in 1999. Wells discusses also the profiling system of those at risk of becoming long-term unemployed. This kind of discussion has also been going on in Finland, but profiling is a delicate matter and previous experience does not support profiling. The method used in Finland is called grouping of services for the needs of the job-seeker instead of profiling.

The Finnish evaluation literature in the field of labour market policy has some interesting characteristics. Most of the research work has traditionally been carried out by social scientists as most economists did not have much interest in these issues before the 1990s. The register-based microdata available is rich of information and provides excellent possibilities for research work.

The main findings of the Finnish LMP evaluation literature could be summarized as follows: employment services are of high quality, they help both employers and job-seekers and have generally positive effectiveness. The main ALMP programmes have mainly got positive, but relatively small effectiveness with the exception of public sector employment subsidies, which seem to have negative effectiveness. For vocational LMT programmes, the evaluation outcome is usually positive, at least to some extent. For private sector employment subsidies, the outcome is usually positive, in some evaluations even to a great extent. Both econometric estimations, evaluations based on individual matching-method as well as analysis based on macro statistics have been carried out.

An experimental study by Malmberg-Heimonen and Vuori (2000) on the effects of job-search training (specifically the job club method) on the labour market status and health of the participants found out that six months after the job-search training the experiment group members were more often employed and less often unemployed than the controls. The researchers state that the longer-term effects

are even more positive. The results are coherent with another study by Tuomala (2000), who finds out that job-search training increases the employment probability by over 4 percentage points and the job-search training included in LMT almost 5 percentage points. Valtakari (2000) analysed the capability of the reformed LMP system on recruitment and job-broking. He states that the service process has become more systematised and uniform and the information on persons seeking employment has improved. Also the ability of the employment offices to respond to employers' recruitment needs and to successfully fill vacancies has been developed.

Hämäläinen (2002) has studied the effectiveness of LMT in three different periods: the overheated phase of 1988–1989, rapid increase in unemployment of 1991–1992 and the depths of recession 1993–1994. In the overheated phase LMT increased employment probability for over 20 percentage points on average as the average effect dropped to the levels of 5 percentage points until 1994. Still, almost 70 per cent of the participants benefited from participation in LMT. The results at a better labour market situation in 1997–1998 carried out by Tuomala (2002) show a slightly better effectiveness as the probability of employment was increased by 6.5 percentage points on average. Sensoring the unemployment spells which did not come to an end by the end of 1997 shows that LMT increases the employment probability by 14 percent in relation to similar kind of unemployed persons who did not participate in the training. In subsidised employment programmes, the employment probability was, however, 15 per cent lower than for non-participants. Aho and Kunttu (2001) found out when applying the matching method, that in 1994 vocational Labour Market Training had positive effectiveness in relation to the controls, but in 1997 the difference did almost disappear. Public sector employment measures had zero effectiveness in 1997, but for private sector employment subsidies, the positive effectiveness increased in magnitude between 1994–1997.

It must be concluded that in the recession of the 1990s effectiveness deteriorated as open labour market demand decreased. The relatively good effectiveness of the late 1980s dropped, but after the recession, in the boom years of the late 1990s, effectiveness did not improve significantly. This was probably due to market saturation as the volumes were high: it was not easy to find new unemployed persons without former ALMP programme experience or new employers without programme experience. There is also research evidence on this pointing out that in the broader Helsinki metropolitan area (and also elsewhere in Southern Finland) where the LMP programme volume was traditionally low, the effectiveness of especially LMT was better than elsewhere (where the LMP volume was higher) (Tuomala 2002b).

5. The experience: Good and bad lessons to learn – strategies, policies and implementation

The first lesson in the Finnish LMP in the 1990s was, that during the recession period, there was not a comprehensive strategy, but a pile of separate measures with poor interconnection with each other. Actually the main strategy in the recession was increasing the volume of active measures, but there was no clear idea of what to do with the whole of LMP and how the various parts work together.

The strategy developed in the 1980s, consisting mainly of the employment obligations, turned out impossible to implement. This market failure caused, not a change in strategy, but a change in measures. The employment obligations were abandoned in the early 1990s.

Kalela (1989) describes the Employment Act of 1988 as a continuation of the "period of tricks". Under this act, the state and the municipalities were obliged to hire 18–19 year-olds and long-term unemployed people in a six-month temporary job, with a substantial subsidy from labour market policy funds. This obligation seemed to work first and did actually cut long-term unemployment, but caused also severe problems in the labour market, e.g. it became a hindrance for normal open labour market hiring as there was heavily subsidised labour available. By the end of 1992, obligations without implementation totalled 35,000 and the law was abandoned. It was also seen that an automatic right to a job prevented the unemployed from taking other job options until the twelve-month stage of unemployment. Skog (1996) calls this kind of obligations "ritual kind of employment". The most important lessons from employment obligations was that it is not possible to destroy the selectivity of LMP without serious trouble. (More on background of Finnish LMP, see Räsänen 2001).

In the recession years, the real strategy was cutting unemployment and preventing exclusion from the labour market. This may resemble in some respects creating dynamics in the labour market by LMP measures, but it is a different kind of idea. It is not easy to describe the Finnish situation in the early 1990s now. The situation in the whole society was very tense and the social pressure arising from massive unemployment was really hard. The idea of LMP was not so much to reach other kind of effectiveness but to moderate the social hardship of unemployment in a situation with only a few job prospects. Many people just wanted to requalify for unemployment insurance benefits by participating in the active programmes.

I still remember discussing with some local employment office people in 1994 as one employment advisor mentioned that she was really surprised when an employer had recently asked for an employee and did not ask for any subsidies,

only for the worker. This episode describes pretty well the situation: addiction to subsidies (see Auer and Kruppe 1996) was common: the employers took advantage of the employment subsidies as did their competitors. The job-seekers waited to be placed with employment subsidies in order to requalify for a new 500 days' unemployment benefit period. There was not much sense to talk about effectiveness of these measures.

One main feature was the increased volume of LMT programmes. Education and training was seen as a better chance than passive unemployment for many people. Too high a volume of these programmes did, however, affect the quality and careful planning of the training. It even happened, that some of the regional authorities asked the Ministry of Labour for less resources for ALMP programmes than was politically decided to be the proper responsibility of each region. This seldom happens in public administration.

The role of job-broking services was rather limited in the recession years. Employers often asked for job-broking services in order to get a subsidised employee. Open labour market job-finding through employment services deteriorated in magnitude.

When labour demand was low in the recession years, the measures for job creating in the public sector as well as the subsidies in the private sector were emphasized. The public organisations were eager to use recruits through the employment service. For the state organisations, there were no costs for using unemployed persons receiving the wage costs through the employment office. For the municipalities and the private sector employers, the system was almost the same, they both get a subsidy, but were obliged to take responsibility for part of the wage costs. For example in the public health care system it was very common not to recruit employees on permanent basis, but instead to recruit all the time subsidised employees for six-month contracts. This behaviour deteriorated the labour markets for nurses and assisting personnel quite badly as there were not even average chances for getting a permanent job. Many nurses stayed several years on short-term fixed contracts and a number of nurses actually left the country because of better salaries and working conditions.

One form of job-creation was self-employment. The number of start-up grants usually combined with entrepreneurial training increased rapidly in the 1990s which caused some side-effects in the competition between small companies. Especially small pubs, hairdressers, but also industrial companies started with subsidies for the employer. Many of these companies collapsed after a while, but generally their probability to stay in business was the same as for Finnish companies in general.

When the capacity to implement LMP was in crisis in the recession years, there were some interesting priorities set on the local level. When new job-seekers

entering the employment office could not be served intensively and individually, they were given basic information in larger groups. This can be considered a good way of implementing LMP. On the other hand, the time periods between the interviews with the unemployed job-seekers tended to become longer and longer especially in the big cities. This deteriorated the information saved on the computerised information system and when the labour demand increased, the possibilities to serve recruiting employers were not very good as the basic information on the skills, education and work experience of the job-seekers was probably out of date. Also, longer spells between the interviews deteriorated job-search behaviour and tended to increase unemployment duration.

In Labour Market Training programmes new target groups emerged, like immigrants, for whom in the 1990s there existed only rather poor service experience. For persons with longer unemployment spells, some activation-oriented training or preparatory training programmes were developed as normal vocational training was not considered suitable for the situation of these people at first hand. However, the average duration of training programmes remained between 4–5 months in 1990s, but slightly longer-term basic vocational skills were emphasized. All indications of recruitment were anticipated carefully and joint training programmes with the employers were successful in producing the skills needed.

In the late 1990s, the LMP strategy became clearly better at least on national level. This development was caused by major changes in the LMP system, which were also changes in the "ideology" of LMP. Many actors were wondering, what the actual aim of LMP was, as they saw that the measures did often activate, but were not enough to cross the job threshold. As labour demand increased and a structural shift in the economy created new jobs with new skill requirements, training measures were important. The main elements of this new thinking were dynamics and prevention-oriented policy. After the passive years of the recession, activation was needed. However, taking the strict budget control, overstrict labour taxation and heavy debt load into consideration, the total resources available for LMP could not be increased. The answer was creating more activation possibilities through short-term employment services and cutting the volume of ALMP programmes, especially employment subsidies (cuts were targeted heavily on public sector employment programmes). Through this, it was considered to be possible to create new dynamics in unemployment and to shorten the spells. One important thing to mention is that the European Employment strategy was in line with this activation and prevention policy. So the ideology of the European Employment strategy and the Finnish strategy became very similar, but whether this was actually implemented well in Finland, can be discussed.

One of the reasons for more strategic thinking was the ageing of the population and the labour force, which is really rapid in Finland due to the post-war record-

large cohorts' approaching the pensionable age. The possibility for scarcity of labour forces one to think carefully about the valuable labour resources. At the beginning of the new millennium, the short-term economic prospects were not as good as they used to be since 1994. The strategy of the Ministry of Labour (Starting points for labour policy strategic choices 2002, Strategy of the Labour Administration for the years 2001–2003) puts clearly the availability of skilled labour as number one strategic goal. That being the case, labour market training and apprenticeship training are important measures. In order to combat the hard structural unemployment, the combined subsidy measure (combining the unemployed person's labour market support and employment subsidy for the employer) in the private sector will be promoted. One part of the labour availability strategy is investment in high quality electronic services for the employers and job-seekers.

The volume of active labour market policy will be increased due to the economic situation. In the new government's programme, a goal is set to reach the level of 27–30 per cent in the activation rate (in relation to broad unemployment) as the current figure stays just above 20 per cent. (Government programme 14.4.2003). This means also quite a lot more spending on active LMP.

6. Conclusions for policy-makers – LMP in cyclical downturn⁵

This chapter concludes the preceding discussion based on the Finnish experience. It is quite obvious that someone else would draw other kind of conclusions or emphasize other aspects of the LMP developments. However, I find these characteristics relevant from the points of view of strategy, policy and implementation in the recent years' developments. Institutional and policy context are important factors for LMP solutions and they must be carefully taken into account.

First of all, it must be mentioned that the heavy recession of the 1990s in Finland is not really an example of an economic downturn, but another story. The OECD's LMP strategy adopted to a great deal from Swedish models is basically a supply-side strategy especially since 1990. Demand-side measures had a certain role in preventing unemployment, but supply-side measures had a more versatile function. *The most important thing is that economic policy has certain restrictions and LMP can limit those restrictions and make a more employment-friendly economic policy possible.* This strategy was originally developed not for the period of economic downturn, but the opposite. The first OECD strategy was named "Manpower policy as a means for the promotion of economic growth". However, the OECD also had cyclical downturns and the role of LMP in mind while creating the strategy as demand-side measures can bring down certain local unemployment peaks. The basic elements of the original Swedish strategy were restrictive economic policy, solidaristic wage policy and active labour market policy. During the last few decades, ALMP has shown its flexibility for various policy regimes and changing economic conditions. (Sihto 2001).

One must ask, how is it possible to combat unemployment by supply-side measures? High effective labour supply is important to ensure the availability of labour. This active search behaviour and certain excess supply is important for wage moderation and for avoiding inflation. This can create favourable preconditions for job-creation. If LMP cannot ensure the availability of skilled labour and labour markets do not function properly, bottlenecks and labour shortage may appear and cause inflation.

The interconnection between economic policy and LMP is of vital importance for success. LMP is also important for the goals of economic policy, like ensuring the preconditions for stable growth in the labour market by taking care of the availability of skilled labour and the dynamics and solid functioning of the labour market. If *LMP can limit the unemployment duration by creating dynamics to*

⁵ Subtitles of this chapter are questions posed for the author in advance by the organisers of the seminar at London School of Economics.

unemployment, the employability of the job-seekers remains at least stable or may even be improved. However, *LMP cannot create jobs* to a large extent or replace the mistakes of economic policy. In Finland, during the last years, several joint working groups between the Ministry of Finance and the Ministry of Labour have worked out improvements in the functioning of the LMP system. These working groups have especially considered the availability of skilled labour and regional mobility issues. The passive costs of unemployment work as automatic stabilisers in the economy, but ALMP measures do nothing automatically.

The most important function of LMP is to ensure the availability of skilled labour when demand for labour arises. This means preventing the labour market to become a hindrance for economic growth. In Finland, this central goal has been achieved quite well. So, basically, welfare policy aspects within LMP are motivated by cyclical or structural policy elements.

What changes to ALMP occurred in response to economic downturns?

There is a structural policy and a cyclical policy as well as a welfare policy component in LMP. Structural policy means e.g. that even in economic downturn some companies invest, recruit and grow and LMP must be able to provide the labour demanded for. In theory at least, the unemployed coming from shutting down low productivity sunset industries, should be trained to meet the new skill demands of the emerging industries. To some extent this may be possible if unemployment is not of long duration and the duration of the training remains reasonable for the participants. Cyclical policy means e.g. that the volume of ALMP can be countercyclical. It sounds reasonable to increase the volume of ALMP when open labour market demand is low and vice versa. But it is important to take care of the longer term structural policy aims in short-term cyclical variations, also.

In Finland the 1990s recession caused an economic and social crisis, and besides the hard economic policy decisions to turn the country back to the path of growth, increases in LMP were part of the policy mix. LMT programmes gained in magnitude and also in relative terms. However, the policy was all the time behind the real situation *and the record volume of 5 per cent stock level of the labour force in ALMP programmes* was reached three years after the beginning of the upswing. Implementation was not taken very seriously at the political level. It is easy to understand afterwards that policy-makers saw nothing but the whole country, there were no regions, no remarkable variation in the policy mix or not much interest in implementation issues.

The welfare policy component became important during the recession as even short-term relief for the long-term unemployed was seen better than leaving those people on their own. Active measures were used in order to cut unemployment

periods, but this did not include any further going ideas about why this was seen as an important goal. "Prevention of exclusion" would someone say as a political slogan. This policy also deepened the distorted interconnection between active and passive LMP which probably increased unemployment duration for some participants.

At the beginning of the new decade, the economy is growing slowly. So this current situation is also not an example of economic downturn actually, but in the Finnish discussion it is very much seen as one. *As the baby-boom cohorts leave the labour markets* in the coming years and the cohorts entering the labour market are much smaller in magnitude, preparation for this strategic change is important already in the current economic situation. At the same time, as in the new government programme published in April 2003, the cyclical policy component is combined with the structural one by increasing the volume of ALMP programmes quite a lot and taking especially the structural unemployment as the main target. This means e.g. that open labour market job-brokering activities and more intensive individual services for the hard-to-place are divided into separate units at the PES. The latter will be based on network model with other actors.

So the answer to the question is, *there is no purely cyclical policy in LMP*, but also structural policy issues and welfare policies must be taken into consideration.

What evidence is there of how well the policy responses worked?

- **Was unemployment lower/employment higher following the shock than had ALMPs not been in place during the shock?**

Labour Market Policy probably decreased the unemployment duration in general by providing employment services and active programmes on selective basis. Creating dynamics to unemployment is important in downturn to maintain employability as open labour market demand has fallen. The most important factor of success after policy formulation is professional implementation based on knowledge of the local labour markets. If the employment offices are able to select the participants who would not otherwise find a job but can benefit from participation, the policy is likely to work. The evaluation outcome can be summarised so that separately the LMP measures usually give positive but rather modest net effects. The exception is public sector employment programmes, which usually give negative effectiveness, as is the case in other countries, as well. *The selection of the optimal policy mix is not only selection between the measures, but a selection between the best policy responses to the labour market situation and the target groups.* Because of this, these public sector employment programmes are used even if it is a well known fact that they actually produce

negative effectiveness. But even within these programmes, there are always some people who benefit from participation.

It seems obvious that without the ALMP measures unemployment duration and the stock level would have risen even higher than it did. Recruiting new employees would have been more difficult in the years following the recession without relevant skills, which were trained during the low labour demand. Recruitment problems and labour shortage did not cause a major problem in the labour market, only in some areas and occupations there were more problems. Generally job vacancies are still filled effectively (see appendix for stock-flow figure of job vacancies).

How did policy respond in an environment where there was low labour demand?

The use of employment creation through subsidies, entrepreneurial training and start-up grants as well as investment-oriented measures tried to create jobs for unemployed persons. Generally, it is easier to achieve results when someone is recruiting than when no one is recruiting. Basically LMP is matching labour supply and demand, developing supply and only in some limited sense creating new labour demand. *In areas with the lowest labour demand*, i.e. high unemployment, the *LMP intensity was much higher* than in areas of better demand. The unemployed in general move more often than others, but this situation may have caused the long-term unemployed persons to stay in their residential area to wait for a subsidised job. This policy may have given some people false promises that there might be something in the job market in this area. Those participating in training measures move often already in order to participate in the training and so it is natural to search for jobs in larger geographical area. LMP in a situation with low labour demand is of course problematic: subsidies give relief for some time, training gives skills which may not be used for some time and activation in job-search behaviour may also seem irrelevant.

What factors were the key influences on decisions regarding ALMP during downturn – cost of maintaining programmes in the short-term or long-term strategic considerations?

There was a budget limit for LMP measures, but it was one of the few priorities in the 1990s. *ALMP was seen as an alternative to the overwhelming passive costs* of unemployment benefits. Somehow this may have caused also problems, e.g. the flat-rate labour market support system is financed totally by the Ministry of Labour. The labour market support includes both active and passive costs, so in order to restrict the passive unemployment benefit costs, the Ministry of Labour should activate the beneficiaries by increasing the same costs. There is however, a system for subsidising the most hard-to-place by the passive benefit and that

being the case, it becomes part of ALMP costs. *The countercyclical element is not very strong at the moment, but the new government will strengthen it for a while.*

- **To what extent were these changes anticipated prior to downturn?**

This depends on the strategy. Employment prospects are often not very accurate, e.g. employers are not often able to anticipate next year's recruitments as the business environment can change. However, there exist quite a number of anticipation projects especially at the regional and local level.

- **What conflicts were identified between the goals of ALMP and broader economic policy during the downturn?**

In 2003, the Finnish public economy is strong, so there is room for further tax cuts as the new government plans to do and simultaneous investment in ALMP. If this policy will work and new jobs will be created, unemployment and its costs decrease, there is not much conflict. In the 1990s, the extremely difficult financial situation of the state in the recession forced the government to cut costs heavily, but it was not considered societally possible to cut ALMP measures or the basic properties of unemployment benefits. *There is conflict between the short-term welfare policy aims and longer-term effectiveness of the measures when the participants are not close to the open labour market.*

- **Had it been possible to establish principles for making decisions on ALMP over the cycle – and if so, to what extent did these inform the policy response in practice?**

This is difficult as the economic environment changes all the time. In Finland the government decides on the budget limits for all Ministries first in principle for the four-year term, then for each year separately before the actual budget proposals are prepared at the Ministries. *Longer-term principles are very much a matter of strategy of the Ministry of Labour.* Certain structural elements are easily identified like the ageing of the society and the future scarcity of labour. The idea of *increasing the ALMP volume in downturn and decreasing it when open labour demand revives*, is one of the basic principles of cyclical policy. If economic policy, especially labour taxation succeeds in timing, then it is possible to make the cyclical variation less steeper.

- **If changes to ALMP policies did occur during economic downturn, to what extent were these reversed as the economy recovered?**

In vocational *LMT programmes* the programmes are directed to immediate labour demand when the economy recovers as in downturn there may be more basic type of vocational training of longer duration. The volume of ALMP programmes is changed depending on the cyclical phase, the stock and structure of unemployment. *Subsidies are not so important in a recovering economy, but*

employment services, job-broking and job-search training are the most important measures.

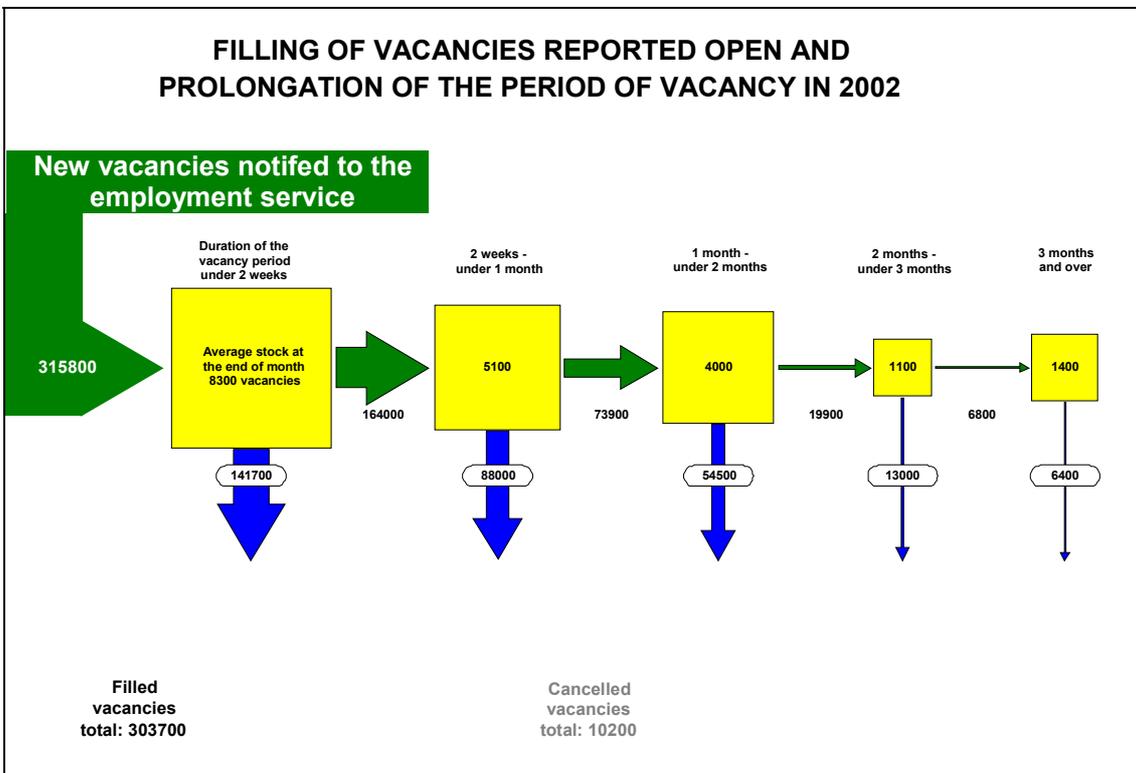
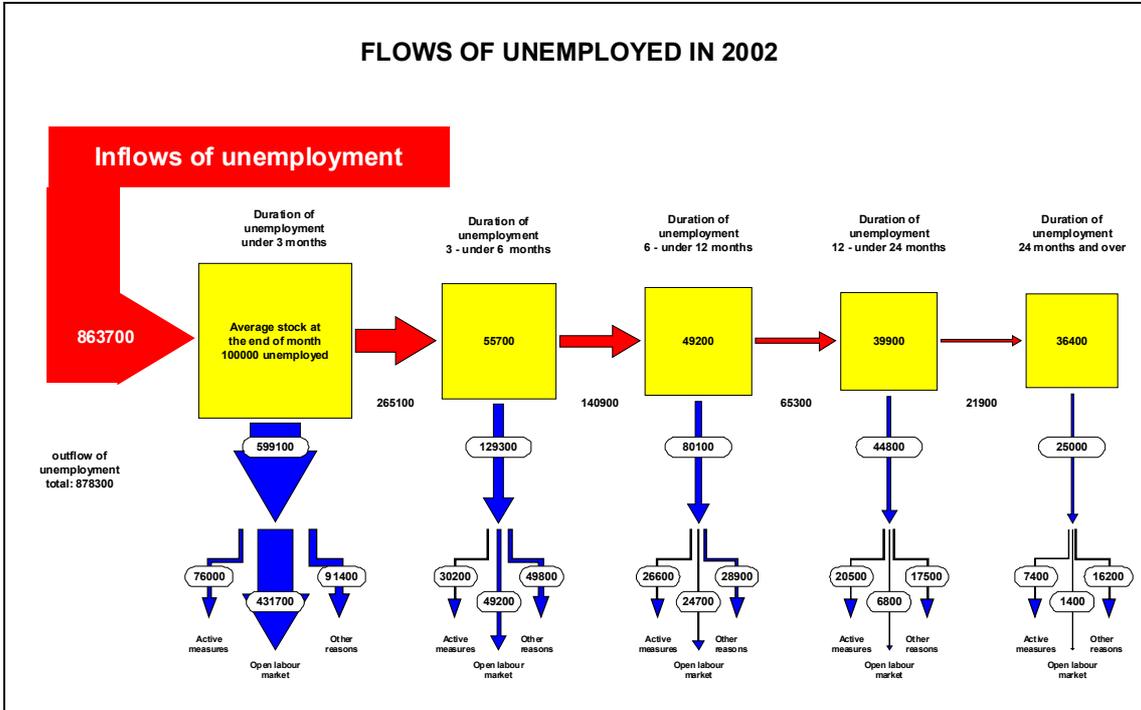
- **What lessons were learnt – how would the policy response to a similar shock be likely to differ in the future?**

There are many different expectations towards LMP in the Finnish society. Some people expect to get unemployment benefits without interruption, some expect to get skilled job applicants, some expect the costs to be cut, some expect a possibility for skill-building, some expect just labour market information. It seems to be the *case that the strategic considerations now take the whole LMP and the interconnection between economic policy and LMP better into account than before*. This also implies that LMP is not just a pile of separate measures, but a coherent system based on high-quality employment services, skilled personnel of the PES and developed information systems. This LMP infrastructure is decisive on the success of participant selection in the programmes, clever tendering, subcontracting and networking processes which all form the effects of LMP. Structural elements like the ageing of the labour force has an effect on LMP as well: the young people should get relevant information on possibilities for education and vocational guidance and labour market information to make the transfers between education and working life of shorter duration and the elderly people should get the relevant skills to cope in the working life longer than the elderly do today.

In brief, *cyclical downturn is not what ALMP was originally planned for*, but it can be applied to help reach both labour market policy and economic policy targets. High-quality employment services, effective job-search behaviour and the reliability in the eyes of the employers are the high priorities also for the effectiveness of the active programmes and the probabilities for the more hard-to-place to find improvement for their situation. *Selectivity must not be destroyed in downturn* by increasing the programme volumes too much. Also, a policy-maker should always look ahead at what is waiting after the downturn.

Appendix

Stock-flow figures of unemployment and job vacancies at the PES in 2002
(Figures developed at the Ministry of Labour)



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